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MISSION FOR EUROPE

ECONOMIC SURVEY OF EUROPE

1999 No. 2

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I T E D N A T I O N S

Economic Commission for Europe

Geneva

ECONOMIC SURVEY OF EUROPE

1999 No. 2

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EXPLANATORY NOTES

The following symbols have been used throughout this *Survey*:

.. = not available or not pertinent

– = nil or negligible

* = estimate by the secretariat of the Economic Commission for Europe

| = break in series

In referring to a combination of years, the use of an oblique stroke (e.g. 1997/98) signifies a 12-month period (say, from 1 July 1997 to 30 June 1998). The use of a hyphen (e.g. 1996-1998) normally signifies either an average of, or a total for, the full period of calendar years covered (including the end-years indicated).

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition of "billion" used throughout is a thousand million. The definition of "trillion" used throughout is a thousand billion. Minor discrepancies in totals and percentages are due to rounding.

References to dollars ($) are to United States dollars unless otherwise specified.

The membership of the United Nations Economic Commission for Europe (UN/ECE) consists of all the states of western Europe, eastern Europe and the territory of the former Soviet Union, North America and Israel.

The term *transition economies*, as used in the text and tables of this publication, refers to the formerly centrally planned economies of the ECE regions. *Eastern Europe* refers to the economies of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia and Yugoslavia. The *Baltic states* refers to Estonia, Latvia and Lithuania and the *CIS countries* refers to Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

ABBREVIATIONS

BAFTA	Baltic Free Trade Agreement
BBC	British Broadcasting Corporation
BIS	Bank for International Settlements
CEFTA	Central European Free Trade Agreement
CETE	central European transition economies
c.i.f.	cost, insurance and freight
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
CPI	consumer price index
ECB	European Central Bank
ECP	European Comparison Programme
EFTA	European Free Trade Association
EMU	economic and monetary union
ERM	exchange rate mechanism
ESA	European System of Integrated Economic Accounts
EU	European Union
FDI	foreign direct investment
FOMC	Federal Open Market Committee (of the Federal Reserve Board)
GDP	gross domestic product
GDR	German Democratic Republic
HWWA	Hamburg Institute for Economic Research
IIF	Institute of International Finance, Inc.
ILO	International Labour Office
IMF	International Monetary Fund
NATO	North Atlantic Treaty Organization
NBER	National Bureau of Economic Research, Inc.
NMP	net material product
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OPT	outward processing trade
PPP	purchasing power parity
SECI	South-east European Cooperation Initiative
SETE	south European transition economies
SITC	Standard International Trade Classification
SNA	System of National Accounts
UN/ECE	United Nations Economic Commission for Europe
USSR	Union of Soviet Socialist Republics
VAT	value added tax
WTO	World Trade Organization

PREFACE

The present *Survey* is the fifty-second in a series of annual reports prepared by the secretariat of the United Nations Economic Commission for Europe to serve the needs of the Commission and of the United Nations in reporting on and analysing world economic conditions.

Until 1997 the *Economic Survey of Europe* was issued once a year as was the *Economic Bulletin for Europe*, the secretariat's second publication which focused on trade and payments issues. At its 52nd Session, in April 1997, the Commission decided to replace these two publications with an annual *Survey* of three issues, starting in 1998. The issues will appear in April, July and November, respectively.

The Survey continues to be published on the sole responsibility of the Executive Secretary of ECE and the views expressed in it should not be attributed to the Commission or to its participating governments.

The analysis in this issue is based on data and information available to the secretariat in mid-June 1999.

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CHAPTER 1

POSTWAR RECONSTRUCTION AND DEVELOPMENT IN SOUTH-EAST EUROPE

1.1 Introduction

International politics and relations in the first half of 1999 have been dominated by the Kosovo crisis. The failure to reach a political settlement at Rambouillet in March resulted in a large-scale military operation by the NATO alliance, which involved prolonged and intensive air strikes against a large number of targets in the territory of the Federal Republic of Yugoslavia. The direct impact of the bombing – and of military operations within Kosovo – on the economy of the Federal Republic of Yugoslavia has been devastating: entire sectors of economic activity have been virtually destroyed and the country's transport and communication infrastructure has been severely damaged. In addition, the conflict has had serious and wide-ranging economic implications for other countries in Europe and especially for those which are close neighbours of Yugoslavia.

The focus of this chapter is on the impact of the Kosovo conflict on the seven transition economies in south-eastern Europe which have been the most heavily affected and which, at the same time, are the poorest and most vulnerable economies in Europe. This is not to imply that the negative impact of the conflict is confined to this region: needless to say, it has had much broader and wider implications. Other neighbouring transition economies have also claimed serious war-related economic damage.[1] In addition, the loss of the Danube as a major international transport route has a pan-European negative economic impact as it is causing costly interruptions in shipments for all countries along its flow.[2]

Among the immediate costs of the conflict has been the tragic outflow of hundreds of thousands of refugees from Kosovo to neighbouring countries and territories. Apart from being an humanitarian catastrophe, this exodus has had grave economic consequences and will impose a heavy burden on both the countries in the region and the international community for quite some time to come, even after the political aspects of the refugee problem have been resolved.

One broader effect of the crisis has been to focus – for the first time – wide public attention on the economic situation in the whole of south-eastern Europe, a region that has long been neglected in the mainstream discussions on international economic policy.[3] When considering the effects of the conflict on south-eastern Europe, it is essential to stress that they are falling on countries where the process of economic and political transformation during the past decade has proved to be much harder than in central Europe and, as a result, they have fallen further behind the rest of Europe rather than embarking on a process of "catching up".

The economic impact of the Kosovo conflict on the fragile economies of south-east Europe is equivalent to a strong negative external shock which is aggravating further their economic situation. It is important to stress that the fallout from the conflict carries considerable risks not only for the economic and political stability of the region but also for Europe as a whole. Thus the problems of the postwar economic development of south-east Europe and the eventual reintegration of its component countries into the European economy is an issue of pan-European importance.

Recognizing the serious economic implications of the Kosovo conflict, various international bodies (notably the European Union and the World Bank) have

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[1] For example, the Slovenian authorities claim that the losses to the tourism industry might be as high as 30 per cent of the total tourism-related revenue (that is, more than $300 million), statement by Janko Razgorsek, Minister for Tourism and Small Business, *Reuters*, 23 April 1999. According to estimates by Ecostat (a research branch of the Hungarian Central Statistical Office), the war-related damage to the Hungarian economy during the first 50 days of the Kosovo conflict amounted to $200 million, *Interfax News Agency*, "Daily Financial Report", 22 May 1999. Other countries such as the Republic of Moldova, Ukraine, Turkey, Greece, and Italy have also suffered heavy economic losses. In the latter two, losses have mainly been in the tourism industry.

[2] Countries like Austria, Germany, Hungary and Ukraine have also reported serious losses related to the halt of navigation.

[3] In this chapter, the subregion of south-east European transition economies (sometimes referred to as "south-east Europe" for short) is defined to include the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, The former Yugoslav Republic of Macedonia and Yugoslavia. This working definition coincides with the sub-aggregate SETE-7 in the tables regularly published in successive issues of this *Survey*.

made proposals for a much more extensive and generous assistance to the countries in the region than was available in the past and for speeding up their integration into the larger European economy. However, not only the economic consequences of the conflict but also the miserable state of most of the south-east European transition economies before it started add a daunting dimension to the postwar tasks of reconstruction and recovery. It should be stated clearly that if the proclaimed task of bringing this region closer to Europe within a reasonable time span is to be taken seriously by the international community, then the costs of the effort, not only to repair the immediate effects of the conflict but also to set the region on a sustained path of economic growth, are going to be very high even by the standards of the industrialized world. Most of the estimates being quoted in the international press, some for example reaching some $5 billion a year for six years, would appear to fall considerably short of what is likely to be reached. Hence, an unprecedented commitment will be needed to raise the necessary financial and technical resources for a long-term "assistance-for-development" effort for these countries.

In addition, the successful implementation of a concerted regional effort by the international community will require, firstly, a carefully thought out long-term regional programme for economic rehabilitation and growth, and secondly, adequate institutional arrangements and an appropriate managerial infrastructure to implement such a programme. Implementation is also likely to require much closer cooperation among the south-east European economies themselves, including economic coordination and the undertaking of joint activities when needed. A small number of regional institutions do exist but economic integration among the south-east European economies at present is de facto virtually non-existent and the coordination of joint economic activity has proven to be very difficult. Hence the postwar reconstruction and recovery effort will probably have to include the creation and institutionalization of new forms of regional economic cooperation and integration.

1.2 Pre-war conditions and the burden of the past

(i) A decade of economic decline

The deep economic problems that the transition economies in south-eastern Europe have been facing since the start of their economic and political transformation in the early 1990s are complex and interrelated.[4] The increasing number of transformation failures in the region provides strong evidence of the prime importance of a number of factors for the overall success of the transformation process which – although not entirely neglected – were generally given inadequate attention in much of the academic and policy debates in the early phases of transition. Among these factors – which have seriously impaired the process of economic transformation – are the obvious locational disadvantages of the region (in terms of its distance from the important west European markets), the highly unfavourable starting conditions (in terms of inherited economic distortions), and the lack of historic traditions in institutional development (which has contributed to a persistent institutional hiatus in these countries).

The regional economy had already been destabilized before the conflict by the breakup of the former SFR of Yugoslavia, and the ensuing conflicts in Croatia and Bosnia and Herzegovina, and more recently by the escalation of the Kosovo crisis. The negative side effects of United Nations sanctions on Yugoslavia were particularly detrimental for some of the countries in the region (Albania, Bulgaria, Romania and The former Yugoslav Republic of Macedonia, for example) and in effect amounted to a strong external shock that added to an already severe transformational recession. Military conflicts, political unrest and general instability in the region have been a strong deterrent to foreign direct investment (FDI); south-eastern Europe never became an attractive destination for FDI, unlike the not-so-distant central European transition economies. Regional trading links, never very strong, have been broken during a decade of military conflicts and economic sanctions, and there are now many barriers to their restoration, a factor which adds to the discentives for significant FDI in the region.

Historically the south-eastern part of Europe has always been among the least developed regions in Europe. Located on the periphery of the continent, it has remained largely underdeveloped. The process of industrialization that took place in over four decades of communist rule was not soundly based; investment decisions reflected the arbitrary preferences of central planners rather than comparative advantage and expected market returns. Once these countries were exposed to competitive pressures from world markets, a large share of the existing capital stock was rendered economically non-viable as it had little or no value under market conditions.

In general, the transition economies in this region were also lagging behind in the process of integration

[4] The UN/ECE secretariat recognized the specific economic problems of the south-eastern European countries and their need for greater international assistance at a very early stage (UN/ECE, *Economic Bulletin for Europe*, Vol. 43 (1991), pp. 7-10). Over the years the UN/ECE secretariat has devoted a special effort to analysing these problems and assessing their policy implications: see, for example, the analysis of the transition crises in Bulgaria (UN/ECE, *Economic Survey of Europe in 1996-1997*, pp. 75-84) and in Romania (UN/ECE, *Economic Survey of Europe, 1999 No. 1*, pp. 70-81).

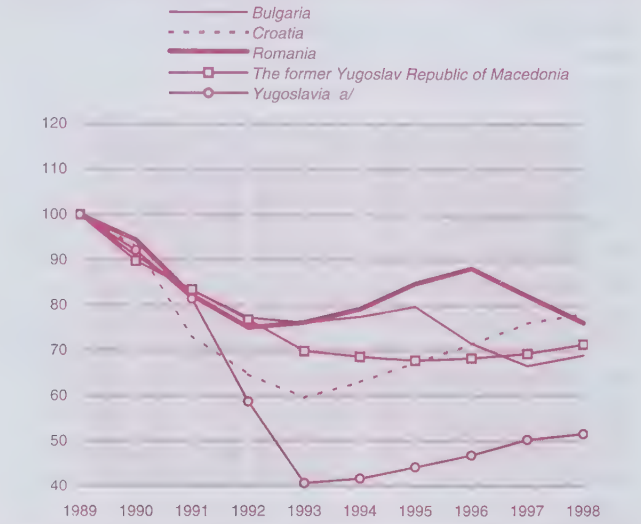
into the larger European economy. Only two countries (Bulgaria and Romania) have managed to establish association agreements with the EU; the rest, for various reasons, have been left out of the process of establishing closer relations with the most important and powerful economic grouping in Europe.

In fact, the decade of the 1990s in south-east Europe has been one of economic regress. With the possible exception of Croatia, none of the economies in the region have managed to emerge from the transition depression and to embark on a path of sustained growth. The contrast between the transition economies of south-east Europe and those in central Europe during the 1990s is especially striking (charts 1.2.1 and 1.2.2). The transformational recession in the central European economies lasted for some three to four years and after 1993 they began to recover (the Czech recession of 1998 can be regarded as belonging to a new cycle). The depth of the total output decline in these countries varied, but at the lowest point was roughly between 75 and 85 per cent of the pre-transition (1989) level. By 1998, GDP in most of these countries had more or less regained its 1989 level, while in Poland it had already surpassed it in 1996 (chart 1.2.2). In contrast, the cumulative decline of GDP in the south-east European economies was much greater and in 1998 it was still generally below 80 per cent of the 1989 level.[5] These countries have followed different patterns of growth during the second half of the 1990s but, apart from Croatia, sustained recovery has failed to materialize.

The differences in terms of employment levels (table 1.2.1) are no less striking. For the south-east European region as a whole, total employment in 1998 was one quarter below its level in 1989, a considerably larger decline than in the central European transition economies[6] where employment fell by roughly one sixth during this period. Thus, parallel to the plunge in economic activity, a great number of people in south-east Europe were forced out of employment and subsequently out of the labour force altogether. Although the data are not always available or reliable, unemployment rates are very high and there has been significant migration, much of it illegal, to the more prosperous parts of Europe. The combination of widespread poverty and limited prospects for employment in many parts of the region has led to increases in many manifestations of social stress, including crime.

CHART 1.2.1

GDP in selected south-east European transition economies, 1989-1998
(Indices, 1989=100)

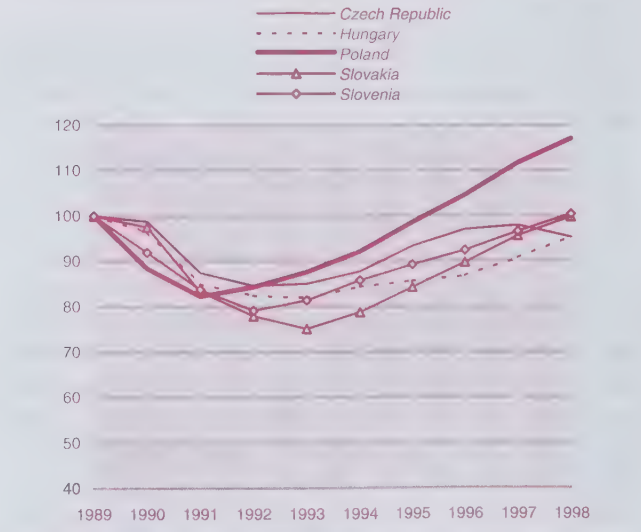


Source: UN/ECE secretariat, based on national statistics.

a Gross material product.

CHART 1.2.2

GDP in selected central European transition economies, 1989-1998
(Indices, 1989=100)



Source: UN/ECE secretariat, based on national statistics.

As a result of these developments, the income disparities vis-à-vis the rest of Europe have not only failed to narrow in the 1990s but have increased substantially. In terms of income levels, south-eastern Europe has always been lagging behind the rest of Europe, but during the 1990s the countries of the region

[5] Due to the lack or scarcity of reliable data, it is difficult to assess precisely the changes in aggregate output in Albania and Bosnia and Herzegovina during this period.

[6] The Czech Republic, Hungary, Poland, Slovakia and Slovenia. These countries constitute the aggregate CETE-5 in the tables regularly published in this *Survey*.

TABLE 1.2.1

Employment and unemployment in the south-east European transition economies, 1996-1998
(Percentage change)

	1996	1997	1998	1998 [a]
Total employment *(percentage change over preceding year)*				
Albania	-2.0	-0.7	-0.4	-23.4
Bosnia and Herzegovina	123.0	52.7	5.9	-37.2[b]
Bulgaria	0.1	-3.9	-1.6	-26.7
Croatia	–	-0.7	-2.0[c]	-26.6
Romania [d]	-1.2	1.0	-1.9	-22.8
The former Yugoslav Republic of Macedonia	-4.4	-5.4	-3.5[c]	-35.2
Yugoslavia	-0.5	-1.5	-1.7[c]	-18.1
Memorandum items:				
CETE-5	1.2	1.4	–	13.7
SETE-7	-0.2	0.2	-1.8	25.8
Unemployment *(per cent of labour force)*				
Albania	12.3	14.9	17.6	..
Bosnia and Herzegovina	..	39*	38*	..
Bulgaria	12.5	13.7	12.2	..
Croatia	15.9	17.6	18.6	..
Romania	6.6	8.8	10.3	..
The former Yugoslav Republic of Macedonia [e]	39.8	42*	..	..
Yugoslavia [e]	26.1	25.6	27.2	..
Memorandum items:				
CETE-5	11.2	9.8	10.2	..
SETE-7	12.5	14.3	15.4	..

Source: UN/ECE secretariat estimates, based on national statistics.

[a] Cumulative change over 1989.

[b] 1998 over 1991, the last year of normal economic activity before the 1992-1995 war.

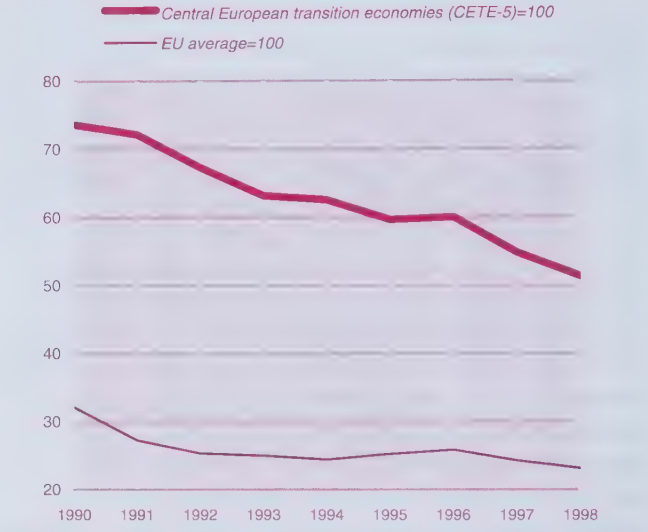
[c] Three quarters only.

[d] End of year data based on labour force balance up to 1997; from 1997, annual average figures based on labour force survey data. Consequently, the regional aggregates which include Romania are not fully comparable before and after 1997.

[e] The data for employment cover only the social sector in agriculture; unemployment rates therefore are biased upwards.

CHART 1.2.3

Average per capita GDP at PPPs [a] in the south-east European transition economies relative to central Europe and the EU average, 1990-1998
(Per cent)



Source: 1996 European Comparison Programme; UN/ECE secretariat estimates.

[a] Purchasing power parities (PPPs).

became still poorer both in relative and in absolute terms. In fact, the gap in per capita income relative to both the EU and the central European transition economies has increased considerably (chart 1.2.3). Indeed, the latter has widened so much during the past decade that at present the difference in average GDP per head (on a purchasing power parity (PPP) basis) between south-eastern and central Europe is comparable to that between the central European transition economies and the EU average. In other words, the south-east European economies have as much to do to catch up with the current central European average income level, as the central European transition economies have to do in order to catch up with the EU average. The time required for such a catching-up to occur is somewhat alarming: unless the current trends in economic performance are decisively broken, it will take decades, even on the more optimistic scenarios, for these poorest European countries to reach only the mediocre level of per capita income currently enjoyed by the more advanced central European transition economies.

The actual experience of reforms and economic transformation in south-eastern Europe has been highly problematic. Over the past decade none of the transition economies in the region has been able to embark on a path of sustained economic growth. Many of them still face basic problems of macroeconomic stabilization; and financial and currency crises have been all too common in recent years. These persistent failures have raised considerable doubts about the wisdom of the actual transformation paradigm that has been pursued in these countries during the last decade. The policy approach – heavily influenced by the "Washington Consensus" – presumed that sustainable macroeconomic stabilization could be easily and rapidly achieved through rapid liberalization and monetary austerity; it was supposed (at least implicitly) that this would then pave the way for high and sustained rates of economic growth, supported strongly by inflows of private capital from abroad. This paradigm embodied strong reliance on the automatic operation of the market mechanism in restructuring the economy, an assumption incorporated – at least implicitly – in the design of the transition programmes.

This model of transformation, however, has not proved to be very successful in south-eastern Europe. The reasons are much too complex to be spelled out here, but basically they are related to the factors outlined above: the locational disadvantage of the region, highly unfavourable starting conditions, and the lack of strong traditions in institutional development. In some cases, the rapid liberalization and opening of the economies turned out to be premature and detrimental as they were totally unprepared to cope with the external shocks. The scale and speed of the latter greatly exceeded the possible rate at which internal economic restructuring and the re-allocation of capital and labour could be achieved in these economies, and this resulted in a too rapid rate of destruction of productive assets and much higher levels of unemployment than were necessary.

It should be stressed that Yugoslavia occupies a special position in the south-eastern region of Europe. Being one of the relatively large economies and strategically located on some of the main transport routes to western Europe, it is both an important market for neighbouring countries and an important transit country. However the Yugoslav economy has been in a parlous state for a long time. Following the second oil shock in 1979 the economy was virtually stagnant for most of the 1980s; it then suffered from the breakup of the former SFR of Yugoslavia, leading to the loss of markets, economies of scale, etc., and then from four years of conflict and international sanctions. After the Dayton Accord of November 1995, little progress was made in restructuring the economy and pushing forward the process of transition to a market economy.

During the period 1989-1993 (when the breakup of the former SFR of Yugoslavia took place) GDP in the Federal Republic of Yugoslavia plunged by almost 60 per cent (chart 1.2.1). With the public finances in a chaotic state, in 1992-1993 there was a period of hyperinflation of a magnitude that was unprecedented in world history. Although a period of modest recovery followed thereafter, the cumulative output decline in Yugoslavia was probably the largest among all the central and eastern European transition economies (with the possible exception of Bosnia and Herzegovina, for which no reliable data are available). During the second half of the 1990s the rate of inflation, although remaining high, has fallen, but the Yugoslav economy has continued to be marred by persistent and severe macroeconomic imbalances.

The process of economic and political transformation that was underway, at varying rates and with varying degrees of success, in most of the other transition economies never got started in Yugoslavia. The persistence of military conflict and external economic sanctions were used by the authorities to justify the maintenance of a strong administrative grip over the economy which became even tighter during periods of open conflict. In addition, after the disintegration of the former SFR of Yugoslavia, the Federal Republic of Yugoslavia never regained membership in the IMF as a successor state due to unresolved issues related to the division of the assets and liabilities of the former SFR of Yugoslavia vis-à-vis the Fund. This exclusion, in itself, would have been sufficient to curb its access to international finance (which for most of the time was blocked by sanctions anyway). Thus the long periods of conflict and external sanctions have led to a vicious circle of reform stalemate and deteriorating economic performance. Over the past decade, this has perpetuated a very specific economic regime in Yugoslavia, largely based on the unreformed, "self-governed" firms (which, however, remained closely controlled by the authorities through the political nomination of management) and unreformed state institutions which function in a manner somewhat similar to those in an economy on a war-footing. Thus, despite mimicking some reforms (such as partial privatization), Yugoslavia has basically remained a non-starter in the process of economic and political transformation.

(ii) South-east Europe on the eve of the Kosovo conflict

(a) Economic growth

As noted above, economic growth in the south-east European transition economies has been persistently lagging behind that in the transition economies of central Europe. This was especially pronounced in the years immediately preceding the Kosovo conflict: while in 1997-1998 robust economic growth generally prevailed in central Europe, aggregate GDP in the seven south-east European economies (SETE-7) declined substantially in both years (table 2.3.1). Despite differences among individual countries (Croatia being a notable exception, with strong growth in 1996-1997), economic activity was generally weak in most of them, with some falling into severe recession.

Overall economic performance in south-east Europe was made even worse in 1998 due to the highly unfavourable external conditions. A number of factors, such as the escalation of global financial turmoil, the Russian crisis, falling global demand and the collapse of world prices for basic commodities and intermediate goods (important export items for all of the south-east European countries – see table 1.2.2), caused a significant weakening of economic activity in the region and actual economic growth in all the countries (with the possible exception of Bulgaria) was less than forecast (see table 2.3.1).

TABLE 1.2.2

Exports of selected south-east European transition economies by commodity and major partner groups, 1997
(Per cent of total exports to corresponding partner group)

	Total	Food, beverages and agricultural products (0+1+4)	Raw materials except fuels (2)	Fuels (3)	Chemical products and intermediates (5+6)	Machinery and transport equipment (7)	Other manufactured goods (8+9)
Albania							
World	100.0	11.1	21.9	1.7	12.8	5.7	46.8
Western Europe	100.0	10.8	20.1	1.1	13.7	1.6	52.7
CEFTA-5	100.0	11.4	67.3	–	16.0	–	5.2
South-east European transition economies	100.0	15.4	17.1	9.9	3.4	53.6	0.6
Other countries	100.0	7.4	57.9	–	8.7	14.3	11.7
Bosnia and Herzegovina:							
World	100.0	3.0	12.5	4.6	53.4	12.7	13.8
Bulgaria:							
World	100.0	13.3	5.5	7.6	46.6	11.1	16.0
Western Europe	100.0	8.0	7.8	4.2	47.7	9.0	23.3
CEFTA-5	100.0	10.6	8.8	8.2	55.6	11.6	5.2
South-east European transition economies	100.0	15.6	6.2	4.3	40.3	28.7	5.0
Other countries	100.0	18.5	2.8	10.8	44.5	12.3	11.1
Croatia							
World	100.0	12.0	7.4	9.8	26.7	17.3	26.7
Western Europe	100.0	3.9	10.8	4.3	26.0	10.5	44.4
CEFTA-5	100.0	32.6	1.1	20.2	25.7	11.7	8.7
South-east European transition economies	100.0	17.3	8.9	23.6	31.8	12.5	5.9
Other countries	100.0	9.7	1.4	1.4	25.0	55.8	6.7
Romania							
World	100.0	6.8	4.7	6.1	33.4	14.0	35.1
Western Europe	100.0	3.1	1.8	1.6	27.3	12.0	54.2
CEFTA-5	100.0	12.0	7.1	3.3	34.8	28.5	14.3
South-east European transition economies	100.0	8.5	9.8	17.2	43.0	17.5	4.0
Other countries	100.0	12.2	8.8	13.2	43.0	15.5	7.3
Yugoslavia:							
World	100.0	16.1	5.5	2.0	57.5	8.7	10.2
Western Europe	100.0	13.8	6.8	0.9	62.4	4.2	11.8
CEFTA-5	100.0	20.5	2.7	3.6	53.7	13.1	6.4
South-east European transition economies	100.0	16.1	4.5	4.0	64.4	5.3	5.7
Other countries	100.0	12.5	9.3	0.2	53.9	12.0	12.0

Source: National statistics and United Nations COMTRADE Database.

Note: Commodity groups are Sections of the United Nations Standard International Trade Classification (SITC Rev. 3). Western Europe includes the EU (15) and EFTA countries. CEFTA-5 includes Czech Republic, Hungary, Poland, Slovakia and Slovenia; south-east European transition economies cover Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, The former Yugoslav Republic of Macedonia and Yugoslavia.

In Romania two years of deep recession almost wiped out the output growth of the four preceding years. The Romanian economy is plagued by structural weaknesses and macroeconomic imbalances (most notably, an ill-structured foreign debt with heavy debt service pending in 1999-2000). Inconsistent stop-go policies and the lack of a coherent reform effort have not produced the urgently needed macroeconomic adjustment; instead, they have exacerbated the crisis, leading to a severe economic downturn coupled with dangerous macroeconomic destabilization. After the introduction of the currency board in 1997, Bulgaria made considerable progress in price stabilization, breaking the previous trend. However the economy seems to have been exhausted by several years of macroeconomic and financial turmoil coupled with progressive decapitalization due to very low rates of fixed investment. Due to its very low growth potential, the Bulgarian economy is fragile and highly vulnerable to external shocks; indeed the manufacturing sector was badly hit by the Russian and global crises in 1998. After several years of stagnation, there was a modest economic recovery in The former Yugoslav Republic of Macedonia in 1998. However, as in Bulgaria, it is drained of resources and lacks the internal driving forces of economic growth; being landlocked and strongly dependent on trade, the economy is especially vulnerable to external disturbances. Both Bosnia and Herzegovina and Albania are heavily dependent on the inflow of foreign resources (official aid in the case of Bosnia and Herzegovina and private transfers in the case of Albania). These are probably the two poorest

countries in Europe and, in addition to economic backwardness, they have been devastated in recent years by war (Bosnia and Herzegovina) or political chaos (Albania). At present neither of these economies has sufficient vitality to sustain economic recovery on its own.

Despite its own problems, Croatia is probably the healthiest of all the south-east European transition economies. Indeed, recovery in Croatia continued for five consecutive years between 1993 and 1998 (chart 1.2.1); and its per capita income is the highest among the south-east European transition economies.[7] The most acute problem of the Croatian economy has been the persistent current account deficit, which in 1997 was the largest of all the east European and Baltic countries (table 2.3.2). The general tightening of monetary and fiscal policy in 1998, in response to this problem, was successful in reducing the current account deficit to less dangerous proportions. However, it also led to a substantial dampening of economic growth which was much greater than expected (table 2.3.1).

Before the start of the Kosovo conflict the Yugoslav economy was already on the verge of collapse. In the absence of a consistent reform programme and due to the continuing external sanctions, Yugoslavia developed a persistent twin deficit problem. Due to its isolation from international financial markets, the economy was facing a choice between two equally unpleasant alternatives: to cover the fiscal gap by monetary emission and thus unleash another round of inflation – or hyperinflation – or to absorb the acute balance of payments constraints through a deep output recession. Arguably, this economic policy dilemma may have been a factor in the escalation of the Kosovo conflict as a means of diverting domestic public attention from the difficult economic policy choices to be made.

(b) Inflation

Rapid and sustained rates of economic growth, by facilitating large gains in productivity and making restructuring less painful, is a fundamental requirement for maintaining low rates of inflation.[8] However, sequencing disinflation and growth, in that order, rather than pursuing them simultaneously, has not been a successful strategy in most of the south-east European economies, nor indeed, in most of the CIS countries. In 1998, the rapid achievement of low inflation rates at a high cost in terms of lost output has again been a major and general feature of these economies. The deliberate or de facto tightening of monetary policy led to large increases in real interest rates and a contraction of commercial credit which, in turn, reinforced the economic downturn and the depressed state of economic activity.

Among the seven south-east European countries in 1998 (table 2.3.5), inflation accelerated only in Yugoslavia and, albeit at a much lower rate, in Croatia.[9] In general disinflation continued in the other countries, and more rapidly than expected *ex ante*, essentially because of depressed demand and falling import prices. However, the former being undesirable and the latter unsustainable, the prospects for further declines in the inflation rate in these countries remain uncertain.

In Croatia the acceleration in the rate of inflation was mainly due to the one-off effect of the introduction of VAT (at a 22 per cent flat rate) in January 1998 when consumer prices rose by 2.4 per cent.[10] After January the average monthly rate fell to less than 0.3 per cent for the rest of the year despite the slow but continuous depreciation of the kuna, mainly because domestic demand was suppressed by tight monetary and fiscal policies.

In Yugoslavia, however, where all attempts to achieve price stability in recent years have proved to be unsustainable, the sharp acceleration in the inflation rate in 1998 – with the year-end rate reaching some 46 per cent, or more than 35 percentage points higher than in 1997 – reflected the devaluation of the dinar (by 45 per cent at the end of March and again in May), the lagged effect of monetary expansion in the second half of 1997 and, particularly in the last quarter, an increase in the rate of monetary emission to finance a rapidly growing budget deficit and to alleviate a growing stock of wage and pension arrears. Furthermore, the government introduced a new sales tax in October to raise revenue to support the increase in military expenditure. These factors, in addition to increased cost pressures during the second half of the year from the renewed downward pressure on the dinar and significantly weaker industrial production, prepared the ground for another period of soaring inflation, in spite of tighter price controls.

In Romania, the inflation rate in 1998 continued the downward trend which had started in the second quarter of 1997, but the deceleration has been slow and was achieved largely through depressed consumer demand, in turn a result of shrinking real incomes. The actual year-end rate of inflation (just under 41 per cent) was below the target agreed with the IMF (45 per cent).

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[7] In 1998 per capita GDP in Croatia, measured at current PPPs, was some 40 per cent higher than for south-east Europe taken as a whole. UN/ECE secretariat calculations based on the results of the 1996 European Comparison Programme (ECP).

[8] For a detailed discussion on the role of growth in disinflation see UN/ECE, *Economic Survey of Europe, 1999 No. 1*, pp. 111-125.

[9] Croatia and Yugoslavia were the only economies among all the 15 east European and Baltic countries where the annual rate of inflation in 1998 was higher than in 1997.

[10] In Croatia, industrial producer prices actually fell, by just over 2 per cent, during the 12 months to December 1998.

The policy of high real interest rates pursued by the central bank in order to control inflation (the leu appreciated strongly in real terms),[11] has not only continued to choke production, but has also increased the cost of borrowing to an already heavily-indebted industry, which is under intense pressure to restructure and increase efficiency.[12] However while high interest rates probably had some dampening effect on prices (which had also been raised by tax and tariff increases designed to limit the growing fiscal deficit) they also had a negative impact on output and unit labour costs.

In Bulgaria, after the severe financial crisis in 1996 and a period of hyperinflation in the closing months of that year and early 1997, a currency board was introduced in mid-1997 and the lev was pegged to the deutsche mark. Inflation started to fall rapidly and the monthly rate fell from 243 per cent in February to less than 1 per cent in the last quarter of 1997. During 1998, prices rose by only 0.9 per cent for the year as a whole (equivalent to less than 0.1 per cent per month), the lowest rate among all the east European and Baltic countries and well below the government's year-end target of 16 per cent (equivalent to a monthly rate of 1.2 per cent). However, this impressive improvement in price stability has been achieved at the cost of a severe depression in aggregate demand: there was only a slight recovery of GDP in 1998 after the collapse of output in 1997 and industrial production continued to fall sharply.

Exchange rate policies and weak demand have also been crucial factors behind the rate of disinflation in 1998 in Albania, Bosnia and Herzegovina and, to a lesser extent, in The former Yugoslav Republic of Macedonia, where there was also a sizeable recovery in measured industrial productivity, mostly due to output growth rather than falling employment, as has been the case in recent years. In the second and third quarters, consumer prices in The former Yugoslav Republic of Macedonia actually fell, largely reflecting the waning influence of the July 1997 devaluation of the dinar and a significant increase in wage arrears which further depressed consumer demand.

In short, with the main exception of Yugoslavia, there was notable progress towards price stabilization in the south-east European countries in 1998, but this was largely achieved at the expense of a deterioration – or, at least no improvement – in the other dimensions of macroeconomic performance.

(c) Labour markets

As noted above, the severe transformation problems that the seven south-east European transition economies have been facing since the early 1990s have resulted in a growing gap between them and the transition economies of central Europe, in terms not only of economic growth but also in labour market performance. Between 1989 and 1998, employment fell on average by more than one quarter in these economies, nearly twice the rate of decline in central Europe (table 1.2.1). In addition to high rates of *registered* unemployment in the south-east European economies there are also many who have lost their jobs but who have not registered as unemployed and are not actively seeking work since the incentives to do so are often weak. Not only are unemployment benefits small or non-existent but the low probability of finding a job encourages people to leave the labour market altogether. This growing number of the "discouraged unemployed" leads to the erosion of work skills, increases poverty and threatens support for the reform process. Frictional unemployment is also increasing rapidly not only due to the restructuring which is an unavoidable part of the transition to an open market economy, but also because the mobility of labour is hampered by the scarcity of housing and the rudimentary state of many public services and of much of the infrastructure which are continuing to deteriorate under the pressure of tight fiscal policies. Given the stance of macroeconomic policies, which in general are giving overwhelming priority to price stabilization, the labour markets in south-east Europe are caught in a vicious circle which has to be broken if the reform process is to remain on track.

As a result of the large decline in employment, *unemployment* in these countries has increased sharply, reaching levels that must inevitably raise questions about the prospects for social stability. By the end of 1998, the average rate of unemployment in the seven south-east European countries was 15.4 per cent compared with 10.2 per cent in the five central European countries. The numbers unemployed as a proportion of the active population exceeded one quarter in Yugoslavia and one third in Bosnia and Herzegovina and The former Yugoslav Republic of Macedonia.[13] At the end of 1998, only Bulgaria and Romania had relatively modest rates of unemployment (i.e. similar to the central European average) but these

[11] The appreciation of the exchange rate was especially pronounced in the first half of 1998 when the leu increased in real terms (CPI deflated) by 29.5 per cent against the dollar and by 34.5 per cent against the deutsche mark. For 1998 as a whole the rates of real appreciation were 23.2 per cent and 25 per cent, respectively.

[12] For an extended discussion of the difficult economic situation in Romania see UN/ECE, *Economic Survey of Europe, 1999 No. 1*, pp. 70-81.

[13] In The former Yugoslav Republic of Macedonia, the most recent official data on unemployment refer to December 1997; since then the statistics office has stopped publishing the figures. Some semi-official estimates suggest that by the end of August 1998, the rate of registered unemployment stood at 44 per cent. However, a large number of those registered as unemployed work in the black economy or are engaged in agriculture so that the true unemployment rate may be around 35 per cent. A labour force survey conducted in April 1998 put the rate at 34.5 per cent.

are more a reflection of delayed restructuring and stop-go policies, designed to avoid or reduce social tension, rather than of an improvement in underlying economic performance. Thus, the very small increase in the unemployment rate in Bulgaria after the 1996 crisis[14] suggests that most of the restructuring remains to be done, but this will be particularly difficult to undertake without a strong recovery in aggregate demand and output. Sustaining the recent achievement of near price stability in Bulgaria may therefore prove to be costly in terms of overall macroeconomic performance and social cohesion.

Employment in the south-east European countries as a whole, which had stagnated in 1996 and 1997, fell by nearly 2 per cent in 1998 (table 1.2.1), reflecting in the main the continued weakness of industrial production. It increased only in Bosnia and Herzegovina, albeit at a much slower rate than in 1997 and, again, thanks mainly to the postwar reconstruction activity. On the other hand, the rate of decline in employment accelerated in Croatia, where economic activity slowed considerably in response to restrictive macroeconomic policies. In Romania, after some gains in 1997, employment was falling again in 1998 as a result of the deep economic recession that started in 1997 and of massive layoffs particularly in the mining sector. In the other countries of the region, employment continued to fall but at slower or similar rates to those in 1997. The highest rate of decline in employment in 1998 was in The former Yugoslav Republic of Macedonia (3.5 per cent), bringing the total reduction in the number of people employed to more than 35 per cent since 1989. Considering that the countries in south-east Europe are still in the early phases of economic transformation, particularly in terms of microeconomic restructuring, the labour market situation can be expected to worsen and the difference between them and the more advanced reformers in central Europe to become even wider.

(d) Trade

Since 1995, the growth of south-east European exports and imports has varied considerably from year to year and from country to country reflecting, *inter alia*, the lagged effects of the economic disturbances created by military campaigns and by United Nations-imposed sanctions against Yugoslavia in 1992-1995, and by the recessionary conditions that are prevailing in the region. The uneven trade performance in the past few years, however, also reflects the limited capacity of these economies to respond to market developments. Once initial reserves of exportable goods had been exhausted in response to trade liberalization, they have faced increasing difficulties in establishing and developing new, competitive export sectors and acquiring the necessary flexibility to redirect their exports from one market to another. The need for such flexibility was strongly underlined in 1998 when global import demand weakened considerably and, especially, when the demand for imports in the important CIS market collapsed in early autumn.

The difficulties of south-east European countries in switching exports to alternative markets stem not only from the weakening of global demand and increased competitive pressures on western markets, but also from the structure of their exports (table 1.2.2). In general it is the internationally less competitive agricultural products and manufactured goods, including machinery and equipment, that are traded within the region and with the CIS while exports to western markets consist mainly of intermediate products and some consumer goods produced under outward processing arrangements.

In the first three months of 1999, prior to the Kosovo conflict, foreign trade was already falling throughout south-east Europe:[15] preliminary figures for four countries for the first quarter of 1999 show their exports falling in aggregate by some 14 per cent and imports by some 11 per cent (as compared with the same period of 1998). These changes resulted not only from the persistence of external demand constraints – there was no recovery in the CIS, import demand in both eastern and western Europe weakened, and world market prices for major intermediate goods continued to decline – but also from disruptions to domestic production and increasing tension within the region arising from the escalation of the Kosovo crisis in Yugoslavia.

The worst affected country was Bulgaria: the dollar value of its exports slumped by nearly one fourth and its imports by 11 per cent, compared with the same period of 1998 (table 2.3.7). Exports to the CIS region were down $102 million (or more than 60 per cent), those to the five CEFTA countries by nearly a half, while trade with the other south-east European countries fell by some 35-40 per cent. The loss of exports to western markets was less severe, 7-8 per cent, mainly because of markedly increased exports to Belgium, France, Switzerland and the United States. There were similar market trends in Croatia and Romania, where

[14] In Bulgaria, the registered unemployment rate increased from 12.5 per cent at the end of 1996 to 13.7 per cent at the end of 1997 and then fell back to 12.2 per cent in December 1998. In Poland, for example, after seven years of high growth rates, the registered unemployment rate in December 1998 was still only 1.8 percentage points lower than in Bulgaria.

At the moment of writing this *Survey*, estimates for total exports and imports in January-March 1999 were available for only four of the seven countries in the region: Bosnia and Herzegovina, Bulgaria, Croatia and Romania (see table 2.3.7); full year 1998 data were available for all of them but the geographical and commodity breakdown was still missing in some cases.

total exports declined by 11 and 9 per cent, respectively, but those to the CIS markets sank by 50-60 per cent and to eastern Europe by 15-20 per cent.

The commodities most heavily affected by these falls in exports were food, beverages and tobacco: down by 40 per cent in Bulgaria, for instance, in January-March 1999 over the same period of 1998. Exports of electrical machinery, vehicles and spare parts, generally traded with other transition economies, were nearly halved while export earnings from raw materials and intermediate goods declined by one third mainly because of falling commodity prices.

According to the latest full-year data for 1998, the aggregate trade deficit of south-eastern Europe increased to nearly $13 billion (tables 2.3.2 and 2.3.7). However, in two of the relatively large economies – Bulgaria and Romania – there was a particularly marked deterioration in their trade deficits (by some $700 million in both cases) as compared with 1997. In the other countries of the region trade balances either improved or remained broadly unchanged although export performance was on a downward trend. In Croatia, exports to the CIS stagnated in 1998 but those to eastern Europe fell by 7 per cent.[16] Only The former Yugoslav Republic of Macedonia and Yugoslavia seem to have been unaffected by the CIS market collapse: according to the latest available data the value of Yugoslavia's exports to Russia increased by some 40 per cent in 1998 and those of The former Yugoslav Republic of Macedonia by more than 20 per cent.[17] The apparent strong growth in the exports and imports of Albania and Bosnia and Herzegovina[18] is partly a statistical artefact – a combination of low values to begin with and better monitoring by the customs authorities which has led to better coverage in the more recent data.

(e) External financial positions

The problems of slow reform, lagging economic performance, inherited debt, periodic difficulties in obtaining foreign assistance and a generally poor investment climate have meant that the south-east European countries have not developed the financial strength required to achieve sustained economic growth. At the beginning of 1999 their financial positions were generally precarious. Some were either facing financing gaps or were already heavily dependent on official finance. The conflict in Yugoslavia has increased the balance of payments pressures on these countries and further reduced their access to the international capital markets. In consequence, financing gaps have increased and so has the need for additional assistance.

While the south-east European countries, as noted above, have experienced significant losses in their merchandise trade, their earnings from international services have also been disrupted. On average, these earnings are relatively more important than in the central European transition economies (table 2.3.4). Tourism has been an important source of foreign currency income in Albania, Bulgaria and Croatia, while Romania has been trying to develop its great potential in this sector. Receipts from transport services and transit fees are relatively important in Bulgaria, Croatia, Romania and Yugoslavia. On the expenditure side, the share of payments for transport in the total is significantly above the central European average in Albania, Bulgaria, Romania and The former Yugoslav Republic of Macedonia (table 1.2.3).

Although financial positions in south-east Europe vary considerably from country to country, there are a number of common features (table 1.2.4). Inflows of foreign direct investment have been generally much smaller than those to central Europe and the Baltic states and the development of local securities markets has been slow, thereby holding down the potential for importing portfolio capital. None of the countries has achieved sustained export growth, thus making debt servicing difficult. Foreign currency reserves have generally been low, although in Albania and Bulgaria they have increased sharply since 1997. Other indicators show a greater diversity among these countries. Bosnia and Herzegovina, Bulgaria and, probably, Yugoslavia are severely indebted countries, while the other countries are classified as low-to-moderately indebted.[19] Nonetheless, some countries in this latter group have already faced debt servicing problems in 1999 and the number could increase if current account earnings continue to weaken. Only Croatia has an investment grade rating from the major agencies, while Bulgaria and Romania are rated as speculative risks.[20] Although conditions in the international capital markets have generally eased since the beginning of the year, the conflict in Yugoslavia has made investors more cautious about most of the countries in south-east Europe. In consequence, market access has become more difficult and a number of bond

[16] Overall, Croatia's exports rose by 9 per cent in 1998 but this was entirely due to the shipbuilding sector: several oil tankers were launched and delivered in the second half of 1998 to Liberian and Russian shipping companies. *Reuters Business Briefing*, 8 and 17 October 1998.

[17] There was probably a slowdown in the exports of The former Yugoslav Republic of Macedonia to Russia in the fourth quarter of 1998, since exports grew by 32 per cent in the first three quarters. IMF, *Direction of Trade Statistics Quarterly* (Washington, D.C.), March 1999.

[18] Here and throughout the text, as well as in all the tables, the reported foreign trade figures for Bosnia and Herzegovina do not include the trade of Republika Srpska.

[19] These categories of indebtedness are those employed by the World Bank.

[20] The (subinvestment grade) credit ratings of Romania were reduced during 1998.

TABLE 1.2.3

Structure of current account flows in the south-east European economies, 1998

(Billion dollars, per cent)

	Receipts						Expenditures				
	Total [a] (billion dollars)	Per cent of total					Total [a] (billion dollars)	Per cent of total			
		Goods	Total services	of which: Transport	of which: Travel	Net transfers		Goods	Total services	of which: Transport	of which: Travel
Albania	0.8	23.8	9.4	1.3	5.7	66.7	0.9	83.3	16.7	7.6	0.3
Bosnia and Herzegovina [b]	1.8	32.2	24.1	..	..	43.6	2.6	85.0	15.0	..	..
Bulgaria	5.8	74.3	21.7	7.8	7.6	4.0	5.7	80.6	19.4	9.1	3.9
Croatia	9.3	49.7	42.7	6.1	29.4	7.6	10.7	82.3	17.7	3.2	5.6
Romania	10.1	82.0	11.9	5.0	2.6	6.1	12.6	86.4	13.6	5.0	3.6
The former Yugoslav Republic of Macedonia	1.8	75.4	7.5	3.5	0.8	17.1	2.0	85.0	15.0	7.1	1.5
Yugoslavia [b]	3.3	72.0	24.9	9.5	1.2	3.2	5.2	93.0	7.0	2.3	0.4
CETE-5	121.2	80.0	16.8	3.6	6.9	3.2	136.2	87.0	13.0	1.8	3.6
SETE-7 [c]	31.0	67.9	24.0	6.1	11.4	8.1	37.1	85.1	14.9	4.9	3.6
Eastern Europe [c]	152.2	77.6	18.3	4.1	7.8	4.2	173.3	86.6	13.4	2.4	3.6

Source: UN/ECE secretariat, based on national balance of payments statistics.

a Excluding investment income flows.

b 1997. Includes official transfers for Bosnia and Herzegovina.

c Excluding Bosnia and Herzegovina.

issues have had to be postponed.[21] Under more normal conditions, such moderately indebted countries (as well as Bulgaria) would have been able to refinance their debt. Concern about stability in the region is also likely to reduce the already modest inflows of FDI although a number of countries were counting on them to finance a significant part of their current account deficits in 1999.

Bosnia and Herzegovina has been heavily dependent on foreign assistance since the cessation of hostilities in 1995. Various official current transfers ($558 million and $422 million in 1996 and 1997, respectively)[22] have helped to finance a large current account deficit which, excluding official transfers, was over one third of GDP. Capital transfers to finance reconstruction have been running at around $700-$800 million annually, and multilateral and bilateral credits have also been important. These resources have been provided under a $5.1 billion programme to support economic reform and reconstruction.[23] Although the programme has helped to generate average GDP growth of around 40 per cent,[24] albeit from a very low base, there is concern that there are still few signs that economic activity can be sustained without such assistance. So far there has been little foreign investment. However, a privatization programme was due to move ahead in 1999 including the sale of parts of the banking sector. Due to the economic recovery that has taken place, the financial ratios have improved rapidly and thus have to be used with care (the country was still rated as severely indebted in 1998).[25] In 1997 over half of the country's external debt was in the form of arrears to official and commercial creditors, the accumulation of which allowed the build-up of foreign exchange reserves to the equivalent of about three and a half months of imports in 1997.

The estimated financing requirement of over $2 billion faced by Croatia in 1999 has been partially filled by a €300 million issue, and negotiations on a new $200 million IMF standby facility are underway. The large current account deficit fell in the first quarter of 1999, but nonetheless it appears that additional private market financing and FDI (from planned privatizations) will be required. Steeply falling exports in the first few months of the year, contracting output, and a further reduction

[21] So far, the only bond issues from south-east Europe in 1999 have been the €300 million by Croatia (February) and the €50 million of the City of Sofia in March, at a costly 700 basis points over the German bund.

[22] The largest current transfers have been made by United Nations agencies and various donors of goods and services.

[23] A total of $4.2 billion was pledged for 1996-1998, and a further $1.05 billion was committed in May 1999 at the Fifth Donor's Conference, jointly chaired by the EC and the World Bank. According to World Bank estimates, the country will need an additional $2.6 billion of external funding during 2000-2004. World Bank, *Bosnia and Herzegovina, 1996-1998 Lessons and Accomplishments – Review of the Priority Reconstruction Program and Looking Ahead Towards Sustainable Economic Development* (Washington, D.C.), May 1999.

[24] Exports were also recovering rapidly until they foundered in early 1999.

[25] In 1995 the ratio of debt to GDP was 156, but by 1998 it had fallen substantially due to the recovery of output and despite steady increases in gross debt.

TABLE 1.2.4

Selected external financial indicators for the south-east European economies, 1998
(Billion and million dollars, per cent)

	Current account/ GDP (per cent)	Gross debt (billion dollars)	Gross debt/ exports (per cent)[a]	Gross debt/GDP (per cent)	Net FDI/ current account[b] (per cent)	Cumulative FDI inflow/ per capita[c] (dollars)	Official reserves (million dollars)	Reserves in months of imports[a]	Credit ratings Moody's/ S&P[d]
Albania	-6.4	0.8	213	26	19	120	349	4.5	–
Bosnia and Herzegovina	-38.5*[e]	4.8	624	117	..	..	859	3.3	–
Bulgaria	-2.1	10.1	173	82	159	162	2 831	5.4	B2/B
Croatia	-7.3	8.5	95	40	49	469	2 816	3.0	Baa3/BBB-
Romania	-7.9	9.6	99	25	68	199	1 663	1.5	B3/B-
The former Yugoslav Republic of Macedonia[f]	-8.2	1.2	83	34	41	89	306	1.8	–
Yugoslavia[g]	-4.6*	15.1	638	58	..	..	200	0.5	–
CETE-5	-4.1	110.7	90	37	77	681	54 876	4.5	..
SETE-7[h]	-6.8	30.1	115	38	63	236	7 965	2.8	..
Eastern Europe[h]	-4.6	140.8	94	37	73	503	62 840	4.2	..

Source: National statistics; IMF, *International Financial Statistics* (Washington, D.C.), June 1999; IMF estimates for the gross debt of Albania, Bosnia and Herzegovina and the Russian Federation; World Bank for the gross debt of Yugoslavia; press reports; UN/ECE secretariat estimates.

a Exports of merchandise and services and income receipts. Total imports of merchandise and services and income payments. For Poland, excludes net receipts from non-classified current account items.

b FDI flows are net.

c Cumulative since 1989.

d International credit ratings by Moody's and Standard & Poor's. Croatia's ratings are investment grade.

e Excluding official transfers.

f Gross debt includes only medium- and long-term debt.

g The estimate of the current account balance has been adjusted to exclude imports for outward processing (see text). Gross debt and exports of goods and services are for 1997.

h Excluding Bosnia and Herzegovina and Yugoslavia.

of foreign exchange reserves are causes for concern.[26] The authorities have maintained that Croatia should not experience significant costs as a result of the Kosovo conflict, although the impact on tourist revenues could be significant.

The 1998 improvement in the chronically difficult financial position of The former Yugoslav Republic of Macedonia appears to have been reversed in early 1999. Exports, which had been stagnant until the shift towards the west European markets in 1998, have faltered and various long-term loans and trade credits appear to have dried up, causing reserves and imports to drop and the current account to contract. The country has run sizeable current account deficits which have been financed largely by guaranteed trade credits and loans, and, early in the decade, by arrears. Plans for a credit rating and bond issue were scrapped in the wake of the global financial crisis. FDI has been minimal although there was some improvement in 1998.

Financial indicators for the Yugoslav economy before the Kosovo conflict already suggested a moderate or severely indebted country with virtually no financial reserves (table 1.2.4).[27] The sources of financing of its persistent current deficit[28] are uncertain, but they are believed to include private bank accounts held offshore as well as foreign exchange reserves secreted abroad to escape sanctions.[29] FDI flows have been limited[30] and the international capital markets have

Some $800 million was reported to have been spent in defence of the kuna in early 1999. M. Skreb, Governor of the Central Bank of Croatia, *Wall Street Journal Europe*, 16 April 1999.

Data for 1997 yield a very high gross debt/export ratio but the gross debt/GDP ratio suggests moderate indebtedness. However, both indicators are bound to have worsened considerably in 1999. The level of foreign exchange reserves at the end of 1998, however, is uncertain. They are reported to have fallen to around DM 800 million ($470 million) in September 1998, but this may include some gold and currency held abroad by commercial banks.

According to the central bank, the current account deficit in 1997 was $1.8 billion. It reflects the value of imports of goods used for finishing and processing ($520 million), but exports include only the value added from this activity. Removing this item from imports lowers the current account deficit to $1.3 billion (and also helps to reduce the figure for unexplained financial inflows). *Trziste Novac Kapital* (Belgrade), July-September 1998.

The former SFR of Yugoslavia reported reserves of around $5 billion, but a substantial share is believed to have been transferred abroad prior to the imposition of economic sanctions.

There seems to have been little recent foreign investment aside from the sale of 49 per cent of the state telephone company to Telecom Italia and OTE (Greece) for $950 million. The prime motive for the sale was believed to be the need to raise cash quickly.

remained inaccessible to Yugoslav borrowers. Prior to the conflict in Kosovo, negotiations were underway for readmission to the Bretton Woods organizations.[31]

Although Bulgaria's reserve position is strong, exports have been stagnant or declining for several years, and recently the current account balance has deteriorated rapidly. This has been due in large measure to external factors but it is also possible that the currency is overvalued.[32] The external debt burden is very high and debt servicing obligations have been met thanks to official loans. In 1999, privatizations and a bond issue are being counted on to boost the inflow of private capital, but the prospects for both plans are now very uncertain in the wake of the Kosovo conflict.

Romania took a step towards filling the large financing gap projected for 1999 by concluding a preliminary agreement with the IMF on a new credit in May.[33] A bond repayment falling due in May was met (apparently by drawing down the country's already low reserves), but another is due in June.[34] However, the country will still require fresh capital market financing and the authorities maintain they can attract $1.4 billion of FDI if the privatization programme is successful. Although the present level of foreign debt is modest, both merchandise exports and GDP have been falling for some years thus raising questions about the development of future debt servicing capacity.

Albania's financial condition has recovered substantially after the disruptions caused by the collapse of the pyramid schemes in 1997. In 1998, exports boomed, economic growth resumed and official reserves have been rebuilt to a relatively high level. However, the current account has been in deficit throughout the 1990s, even with sizeable inflows of workers' remittances. The country has relied heavily on official flows of finance, chiefly transfers (especially at the beginning of the decade) but also multilateral and bilateral loans. There seems to have been virtually no private loans. FDI has been a modest source of financing, but it is unclear how much of the stock of foreign investments survived the events of 1997.

1.3 Impact of the war

The economic implications of the Kosovo conflict are so numerous and diversified that it is difficult to provide an exhaustive list. The most urgent tasks in the immediate future are related to the consequences of the outflow of hundreds of thousands of refugees from Kosovo. Apart from the humanitarian side of the problem – the international action to organize the return of the refugees to their homes and to support the costs of caring for them in the meantime – the displacement of such a large number of people has caused considerable strains on the economies of Albania and The former Yugoslav Republic of Macedonia, the two main host countries. As noted above, the economies of these countries are fragile and susceptible to disturbance, and the influx of refugees alone has been a major economic shock for them. There is clearly an urgent need for extraordinary special assistance to these two countries on the part of the international community. However, although official donors pledged considerable amounts of financial support, there has been a regrettable lack of synchronization between actual disbursements and the rapidly mounting costs borne by the host countries; the actual disbursement of financial assistance during the first two months of the conflict was negligible.

The most direct and visible economic consequence of the war is the damage to the Yugoslav economy caused by months of air strikes on numerous targets and by the hostilities within the territory of Kosovo. The destruction of assets has been considerable: the transport and communication infrastructure of the country has been wrecked, the electric power grid has been severely damaged, and entire industries have practically collapsed due to the heavy damage inflicted on them. As a result of the air strikes Yugoslavia lost an enormous amount of assets;[35] according to an independent group of Yugoslav economists, Group-17, the total economic damage caused by the war is estimated at around $30 billion.[36] In addition, the hostilities within Kosovo have caused enormous damage, particularly to individual property (houses, farms, etc.). Although there is bound to be a significant margin of error surrounding all such estimates until detailed surveys can be carried out, there is little reason to doubt that the destruction of the country's capital stock is very extensive.

Unlike the other successor republics of the former SFR of Yugoslavia, Yugoslavia has failed to normalize its relations with the London and Paris Clubs.

Bulgaria established a currency board in July 1997 which fixed the nominal exchange rate at first against the deutsche mark and subsequently against the euro.

The previous agreement had been suspended. Romania is negotiating an increase in the new standby credit.

[34] The IMF has encouraged Romania to negotiate a restructuring of these bond repayments in order to conserve official reserves.

Among the targets reportedly destroyed during this period were more than 200 factories, 190 schools, 50 hospitals, 50 bridges and 5 airports. Quoted by RosBusinessConsulting (http://www.rbc.ru/), 2 June 1999. According to other assessments, 1,134 buildings were destroyed in Belgrade alone. *Le Temps* (Geneva), 10 June 1999.

Group-17, "Economic consequences of NATO bombing: estimates of damage and finances required for economic reconstruction of Yugoslavia", mimeo (Belgrade), June 1999.

However, the impact of the conflict is by no means restricted to the territory of Yugoslavia. Indeed, the Kosovo conflict has added a further dimension to the already unfavourable external environment for many transition economies, worsening further their short-term economic outlook. The conflict-related economic damage incurred is already quite substantial. Neighbouring countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Romania, The former Yugoslav Republic of Macedonia) have lost markets as well as traditional suppliers in Yugoslavia. The transport links to and from the south-eastern part of Europe have been severely impaired: navigation along the Danube has been paralyzed by the destroyed bridges and all traffic through Yugoslavia (ground, rail and air) has been brought to a halt. The negative effects are especially strong for international trade between western Europe, the main trading partner, and the countries locked in the Balkan region (in particular Bulgaria, Romania and The former Yugoslav Republic of Macedonia): as the available alternative routes are of limited capacity, this has resulted in the direct destruction of important trade flows. In addition, the loss of the Danube as a waterway has a pan-European negative impact as it is causing costly interruptions in shipments for all the riparian countries as well as some in the Black Sea region.[37] The conflict has undoubtedly increased investors' perception of risk in the whole area surrounding the immediate conflict zone and this will restrain access to international financial markets and raise borrowing costs for the affected countries, which in general are badly in need of fresh finance. As noted above, the inflow of FDI to this region – an important force for economic restructuring as well as balance of payments support – is also likely to be curbed. The fact is that the conflict has had – and is continuing to have – a significant negative economic impact on all the countries in south-east Europe, most of which were already in a precarious economic state.

Quantitative estimates of the costs of the damage to any individual country must necessarily be largely guesswork due to the lack of precise information as well as unresolved methodological difficulties.[38] However, it is useful to mention some of the transmission channels through which the conflict has affected the neighbouring countries.[39] The principal ones are: the cost of supporting refugees in the host countries, the loss of exports and imports as a result of the disruption of transport routes (which is likely to be the most important source of damage); increased costs/prices of exports and imports (and, indirectly, further losses due to the deterioration in competitiveness) as a result of having to use alternative and more costly transport routes; lower fiscal revenue due to foregone export revenue and lower imports (hence lower duty and other customs receipts); reduced income from tourism (both foreign exchange earnings and fiscal revenue); smaller inflows of FDI due to perceptions of increased risk by foreign investors; and higher borrowing costs on international financial markets. The combined effect of all these negative factors has already had a serious macroeconomic impact comprising a severe balance of payments shock, a loss of aggregate output, increased unemployment and a deterioration in the fiscal balance. Without assistance this impact will be more severe the longer the disruptive effects of the conflict last. In addition, the countries which have received most of the refugees, Albania and The former Yugoslav Republic of Macedonia, are still bearing considerable extra direct and indirect costs (costs related to the construction of refugee camps, the provision of logistic support and, partly, to the care of the refugees, as well as foregone income from the areas of land allocated for the camps).

The loss of the Yugoslav market in itself has been a serious blow for the economies of some of the neighbouring countries. Judging from the data on the pre-war geographical composition of trade (table 1.3.1), the direct effect from the loss of this market is likely to be greatest in the case of The former Yugoslav Republic of Macedonia which used to send more than 9 per cent of its total exports to Yugoslavia. The impact is also likely to be sizeable for Bosnia and Herzegovina, Bulgaria and Romania where the relative importance of Yugoslavia as an export market was also significant.[40] For most of the neighbouring countries however the disruption of the transport routes has probably been the most serious source of dislocation. For all these economies (with the exception of Bosnia and Herzegovina) the EU is the main trading partner (table 1.3.1) and the disturbance in the international transport system has resulted in sizeable losses.

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[37] For example, Ukraine (which maintains a large Danube fleet) claims direct daily losses due to the blockage of the Danube amounting to $300 thousand. Statement by Ukrainian Foreign Minister Borys Tarasyuk, *RFE/RL*, "Weekday Magazine", 13 April 1999.

[38] One of the methodological approaches to the assessment of the "cost" of the Kosovo conflict suggested in some recent studies has been to treat the latter as an external shock that shifts the aggregate demand curve. Following this approach it has been estimated that the likely cost of the conflict on the neighbouring transition economies may range from 1 to 5 percentage points of their GDP growth rates in 1999. V. Gligorov and N. Sundström, "The costs of the Kosovo crisis", *WIIW Current Analyses and Country Profiles*, No. 12 (Vienna), April 1999.

[39] It should be noted that not all of the affected countries have actually prepared official estimates of the inflicted damage, while those that have apparently apply different methodologies. Hence the figures quoted below are mainly for illustrative purposes and cannot be used for direct cross-country comparisons; these figures do not provide any measure of the relative magnitude of the damage either.

[40] The reported trade data on Bosnia and Herzegovina in table 1.3.1 only partly include the trade of Republika Srpska; these data, therefore, do not reflect the full impact of the loss of the Yugoslav market for the Federation as a whole as Yugoslavia is the main trading partner of Republika Srpska.

TABLE 1.3.1

Trade of the south-east European transition economies: exports and imports by direction, 1997
(Million dollars, per cent)

	Albania	Bosnia and Herzegovina	Bulgaria	Croatia	Romania	The former Yugoslav Republic of Macedonia	Yugoslavia[a]
Exports to:							
World *(million dollars)*	141	193	4 914	4 171	8 431	1 075	2 376
Share in total exports *(per cent)*	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North Europe	88.9	28.2	46.8	67.1	61.9	50.2	58.3
EU and EFTA	87.9	17.7	44.2	50.9	57.8	44.0	54.7
CEFTA-5 and BAFTA	1.0	10.5	2.6	16.1	4.1	6.2	3.6
South-east Europe	7.1	60.2	6.7	18.6	2.9	16.3	27.8
Albania	..	0.1	0.5	0.1	–	1.1	–
Bosnia and Herzegovina	–	..	0.1	15.6	0.1	0.1	15.8
Bulgaria	–	0.1	..	0.2	0.7	1.9	1.5
Croatia	4.2	57.0	0.3	..	0.2	3.6	–
Romania	–	–	1.3	0.4	..	0.4	1.9
The former Yugoslav Republic of Macedonia	2.6	1.8	2.0	1.9	0.1	..	8.6
Yugoslavia	0.3	1.2	2.5	0.5	1.7	9.3	..
CIS	–	1.7	17.4	4.7	6.2	11.4	6.5
Other countries	4.0	9.9	29.1	9.6	29.0	22.0	7.4
Memorandum items:							
Greece	20.3	-	8.3	0.4	2.1	1.7	4.5
Turkey	0.9	0.4	9.0	0.2	4.2	2.5	0.4
Imports from:							
World *(million dollars)*	620	1 555	4 886	9 104	11 280	1 808	4 801
Share in total imports *(per cent)*	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North Europe	87.8	72.7	42.3	76.9	59.7	58.0	54.5
EU and EFTA	84.9	51.8	38.3	62.1	54.0	45.5	49.1
CEFTA-5 and BAFTA	2.9	21.0	4.1	14.8	5.7	12.4	5.4
South-east Europe	5.6	20.1	2.3	2.6	1.2	22.4	16.7
Albania	..	–	–	–	–	0.2	–
Bosnia and Herzegovina	–	..	–	1.5	0.1	0.1	5.6
Bulgaria	2.7	0.1	..	0.2	0.5	5.3	2.8
Croatia	0.4	19.0	0.2	..	0.1	4.7	–
Romania	0.3	0.1	1.2	0.3	..	0.7	2.3
The former Yugoslav Republic of Macedonia	2.1	0.7	0.1	0.5	–	..	6.0
Yugoslavia	0.1	0.1	0.8	0.1	0.5	11.5	..
CIS	0.5	0.4	32.8	5.5	14.9	6.9	10.1
Other countries	6.0	6.7	22.5	15.1	24.2	12.7	18.8
Memorandum items:							
Greece	26.6	0.1	4.2	0.2	1.7	2.1	3.7
Turkey	4.4	1.6	2.1	0.3	1.9	4.7	1.2

Source: National statistics; for The former Yugoslavia Republic of Macedonia, IMF, *Direction of Trade Statistics*, December 1998.

Note: CEFTA-5: Czech Republic, Hungary, Poland, Slovakia and Slovenia. BAFTA: Estonia, Latvia and Lithuania.

[a] Shares are based on revised data for January-September 1997.

As far as the losses in intraregional trade are concerned, the most affected countries appear to be Bosnia and Herzegovina, Croatia and The former Yugoslav Republic of Macedonia; for Bulgaria and Romania intraregional trade has been of limited importance (table 1.3.1). However, one way or another, the conflict in Yugoslavia has brought about a major disturbance in the foreign trade flows of all the neighbouring countries, a disturbance which follows closely on the CIS market collapse and the weakening of import demand over the past year in the west and east European markets. Its effects are likely to be long-lasting and, hence, the region's foreign trade is most likely to be in decline throughout 1999.

Since the start of the Kosovo conflict all the south-east European countries have reported large negative impacts on their foreign trade and payments including the direct loss of export revenue and the indirect effects of reduced imports of inputs, disrupted contracts, etc.

The actual losses in trade incurred by individual countries, however, are difficult to assess because of the lag in customs reporting and also because of the lack of precise and up-to-date information on trade flows by different modes of transport. For instance, Bulgaria's dependency on inland water transport (Danube river) and transit routes (railway and roads) via Yugoslavia is widely acknowledged and discussed; however, according to one source of transport statistics, nearly 70 per cent of internationally loaded goods (in tonnes) were carried by maritime transport in 1995, and of those shipped along the Danube 75 per cent went down the river to Ukraine.[41] Neither of these transport routes were directly affected by the conflict in Yugoslavia unless most of the ships were blocked in the Danube above Novi Sad. However, it has to be borne in mind that the geographical pattern of Bulgaria's exports has changed since 1995. The share of north European markets (see table 1.3.1), generally accessed via Yugoslavia and/or the Danube, increased by some 3-5 percentage points. In Romania, too, the bulk of internationally loaded goods used to be transported by maritime transport (40-45 per cent) with Danube shipments accounting for 6-7 per cent.

As noted already, a number of south-east European countries were facing large financing gaps even before the conflict in Yugoslavia.[42] In several cases shortfalls in privatization revenues and/or private capital financing have threatened to lead to the depletion of international reserves or even to default on debt repayments. It is against this background that the impact of the conflict on financing the balance of payments needs to be viewed. The IMF has estimated the incremental effects of the conflict on six south-east European countries in 1999 at some $1.1-$1.7 billion, of which $0.7-$0.9 billion represents a larger current account gap.[43] At the time of the publication's release in May, $591 million had been pledged by the international community. Of this $175 million was in grants and $70 million and $326 million in concessional and non-concessional loans, respectively.

Although, as mentioned above, the precise measurement of the conflict-related economic damage is necessarily uncertain at this stage, it is still useful to quote some of the estimates prepared by official government agencies in some of the other affected countries.[44] In the early phase of the conflict Bulgarian officials estimated the direct export losses due to the conflict at $1.0-$1.5 million a day.[45] Ten weeks after the start of the conflict the direct losses reported to the standing ad hoc government commission monitoring the war-related economic damage amounted to $73 million.[46] At the same time it was estimated that the total negative impact of the war on the current account might be as high as $70 million per month.[47] In addition, an earlier forecast of a $1 billion inflow of FDI in 1999 was reduced by one half in the wake of the Kosovo conflict; if this revised forecast proves correct it will obviously intensify the problems of filling the financing gap.[48] Government departments in Romania have estimated that it might lose some 15 per cent of its exports to Austria, Germany and Hungary (that is, more than 3 per cent of its total exports) as a result of the conflict.[49] According to other official estimates, the first two months of the Kosovo conflict resulted in total damage to the Romanian economy amounting to $803 million.[50]

Tourism throughout the region, but especially in Croatia where tourism is a key sector of the economy,[51] is likely to be badly affected in 1999. The estimates of the losses of the tourist industry in Croatia range from 10 to 50 per cent in terms of revenue.[52]

The spillover costs of the conflict are equivalent to another external shock for the affected countries, the strength of which depends on the degree of penetration of the shock waves through the different transmission channels mentioned above and, in general, on the distance from the conflict zone (naturally, the closest

[41] UN/ECE, *Annual Bulletin of Transport Statistics for Europe and North America*, 1997 (United Nations publication, Sales No. E/F/R.98.II.E.11), pp. 44, 104, 163 and 164.

[42] UN/ECE, *Economic Survey of Europe, 1999 No. 1*, pp. 178-179.

[43] IMF and the World Bank, "The economic consequences of the Kosovo crisis: an updated assessment", 25 May 1999 (IMF internet website). The estimates are for two scenarios, and exclude refugee costs. Including the latter the additional burden is some 1.8-3.0 per cent of the combined GDP of the six countries.

[44] The governments of some countries (such as Bulgaria) established special bodies with the task of monitoring and assessing the economic damage incurred as a result of the Kosovo conflict.

[45] Statement by Deputy Prime Minister Alexander Bozhkov, *Reuters*, 19 April 1999.

[46] *Pari Daily* (Sofia), 9 June 1999.

[47] Statement by Trade Minister Valentin Vassilev, *Reuters*, 27 April 1999.

[48] Statement by Deputy Prime Minister Alexander Bozhkov, *Reuters*, 19 April 1999.

[49] Statement by Romania's Ministry of Industry, *Reuters*, 20 April 1999.

[50] *Romanian Business Journal*, No. 20 (Bucharest), 21-27 May 1999. However, this estimate appears to contain some double counting since foregone imports and exports are added together.

[51] According to the national balance of payments statistics, in 1998 Croatia earned over $2.7 billion in foreign exchange from tourism (equivalent to 12.7 per cent of the country's GDP). UN/ECE secretariat computations.

[52] According to a statement by the Governor of the National Bank of Croatia, Marko Skreb, Croatia could expect a drop in tourism revenues by some 10-15 per cent in 1999. *Wall Street Journal Europe*, 16 April 1999. However, according to Tourism Minister Ivan Herak, the expected losses might reach as much as 50 per cent of the 1998 tourism revenues. *RFE/RL*, "Newsline", 27 April 1999.

neighbours are the worst affected). As all the south-east European transition economies were already in a precarious state before the conflict, due to their grave domestic problems, they are extremely vulnerable to any additional external disturbances. There is therefore a considerable risk that unless timely and comprehensive measures (supported by adequate resources) are taken by the international community to offset the negative impact of the Kosovo conflict, some of these economies will soon be facing a new round of severe economic crises. There is therefore an urgent need for coherent strategies to address not only the immediate consequences of the conflict but also the chronic structural weaknesses of the south-east European economies which leaves them in such a vulnerable state.

1.4 Postwar recovery strategies

The paramount economic issues arising from the consequences of the war are related first of all to the repair of the damage caused by military action and the reconstruction of the economies directly involved in the conflict; but, more fundamentally, the key task is to bring about the economic regeneration of the whole south-east European region in order to establish economic stability and economic growth and to lay the basis for future economic prosperity and so reduce the risks to security in the future.

The scale of the economic damage and the implications of the Kosovo conflict for the whole of south-eastern Europe (which will continue to have a negative impact long after the end of military operations) demand an urgent response by the international community. It is becoming increasingly evident (and this judgement seems to be shared by a growing number of experts) that a new approach, different from that pursued in the past, is needed to address these problems. It is important to emphasize that the issue is not simply a matter of providing assistance for rebuilding the assets and infrastructure destroyed in the course of the conflict or of trying to re-start economic transformation using the old paradigms. The key element of a new approach must be to find ways and means to revitalize and rehabilitate a large European region, encompassing several sovereign states; it must include a comprehensive programme of economic measures that would allow these countries to embark on a path of macroeconomic stability and sustained economic growth and to ensure its eventual reintegration into the wider European economy. Over the years, the UN/ECE secretariat has been advocating the adoption of alternative approaches and strategies of reform, especially as regards the region of south-eastern Europe, with much greater emphasis on the building and the development of institutions and market infrastructures, and, because such institution building is complex and takes time, it has persistently advocated a much higher level of external support for these economies. They need a much longer breathing space than is currently provided for by the main sources of international assistance.

In addressing the whole issue of postwar reconstruction and recovery in south-east Europe, careful consideration must be given to the role of Yugoslavia which occupies a special position in the south-eastern region of Europe. Being one of the relatively large economies and strategically located on the main routes to western Europe, it is both an important market for neighbouring countries and an important transit country. As such, it must be central to any plans for reviving the economies of the region. It needs to be stressed that if the Yugoslav economy remains in shatters, if the Danube is not cleared so that navigation can resume, if the bridges are not rebuilt and the roads and railroads repaired to enable normal merchandise traffic between south-east Europe and the rest of the continent to be re-established, it is inconceivable that any attempts to revive the economies of the neighbouring countries will bring about the expected results. Moreover, if the Yugoslav economy remains in dire straits for a long time, it will not only impede the economic recovery of the region but will remain a threat to the economic and political security of Europe as a whole. A core of instability in the heart of the Balkans will not only continue to deter private investment, domestic and foreign, in the south-east European region but also to generate political and social tensions throughout the continent. Hence, a comprehensive programme for reconstruction and recovery in south-eastern Europe must, almost by definition, include as a key element the rebuilding of Yugoslavia and the revitalization of its economy.

At the moment of writing this *Survey* the bombing of Yugoslavia had just come to an end and it was too early to assess with any pretence of accuracy the final extent of the war-related damage and its consequences for the future, but it seems safe to say that the economy is in ruins and will be in a disastrous state for a long time to come. Even the partial estimates quoted above indicate that Yugoslavia has lost a major share of its economic assets and in terms of economic development the country has been set back decades. Indeed the war appears to have relegated Yugoslavia to one of the poorest states in Europe. The task of rebuilding the damaged economic infrastructure alone is likely to run into tens of billions of dollars and will take years to complete. Clearly, this is not a task that Yugoslavia can accomplish on its own in the foreseeable future, even if it mobilizes all domestically available resources. Moreover, addressing such a task will require considerable amounts of official assistance to get the process started – even after a political settlement has been reached over Kosovo there is unlikely to be any significant inflow of foreign private capital to Yugoslavia in the short run.

In the postwar period Yugoslavia will be facing a myriad of complex economic problems. *First*, will be the rebuilding of the physical capital stock and the economic infrastructure. This will be a major task and will have to be sequenced over an appropriate time period, starting with emergency measures to restore basic services and then perhaps giving priority to the repair of the transport system, including clearance of the obstacles to traffic on the Danube. For the region as a whole, the reconstruction of the transport system is of primary importance for improving the economic situation.

Secondly, economic activity – and economic policy – have to be switched from military to peacetime objectives. This will also imply the need for a major reform in public finances, an area of economic policy that has been a persistent source of problems and an issue that Yugoslavia would have had to face anyway. *Thirdly*, and in parallel, the transition process will have to get underway, almost certainly with the transformation of the ownership and managerial structures into a private property-based market economy if foreign capital is to be attracted into the country. And *fourthly*, progress with reconstruction and reform will also depend on a reasonable degree of macroeconomic stability being maintained and, especially, on avoiding the risk of a severe inflation arising from the bottlenecks that will be inevitable in the short run.

The economic problems that lie ahead for Yugoslavia are daunting. In fact the population has yet to come to grips with the new economic realities and with the poverty that the outcome of the conflict implies for the foreseeable future. It is difficult to see how an agenda such as the one outlined above can be implemented effectively, and within a reasonable time so as to preserve social stability, without a major programme of long-term assistance from abroad.

The economic implications of the Kosovo conflict for the rest of the south-east European transition countries are not as grave as in the case of Yugoslavia but they still need to be addressed urgently in order to avoid a dangerous economic destabilization of the whole region and, more importantly, to create the foundations of future economic prosperity in this part of Europe. Indeed, the rebuilding of the destroyed infrastructure and the provision of short-term relief are by no means the only matters on which the peoples of the whole south-east European region deserve a response from the international community.

In fact, short-term assistance (or at least pledges of such) has not been missing since the outbreak of the Kosovo conflict. In April-May several rounds of extraordinary meetings of official donors took place bringing about pledges for supplementary donor support to Albania, Bosnia and Herzegovina, Bulgaria and The former Yugoslav Republic of Macedonia.[53] The International Monetary Fund and the World Bank published their own assessment (subsequently revised and updated) of the economic consequences of the Kosovo crisis, apparently preparing for additional contingency balance of payment support to the most affected countries.[54] However, even if this additional assistance helps the affected countries to get through the most difficult period in the short-term (which in itself is far from certain), this type of support does not even address the fundamental issue of reversing the unfavourable economic trends of the last decade and revitalizing the economies of the region.

This is not to say that these questions have been ignored in the public debates on the future of south-east Europe which have emerged since the outbreak of the Kosovo conflict; on the contrary, there have been intensive policy discussions and consultations, including at the highest political level. The EU together with the World Bank have taken the lead in this debate and have come up with several policy initiatives. The most important outcome has been the preparation of the so called "Stability Pact for South-Eastern Europe", the draft of which was discussed at a preparatory meeting of the foreign ministers of the EU member states and the south-eastern European countries in Petersberg, Germany on 27 May and which was adopted at a similar conference in Cologne on 10 June. This document outlines a broad framework for international cooperation with the south-east European countries but focusing mainly on the political dimension of the process. The economic dimension of the Stability Pact, however, is still to be spelled out substantively and only when that is done will it be possible to determine whether and to what extent this programme will respond to the needs and expectations of the peoples in south-east Europe.

During the policy debates on the future of south-east Europe reference has often been made to the Marshall Plan and indeed some of the policy suggestions have made direct reference to the need for a "new Marshall Plan for south-east Europe". Insofar as they recognize the need to support fundamental and time-consuming reforms and to promote economic regeneration across the entire region of south-eastern Europe, such suggestions are highly relevant and welcome. However it is worth mentioning that such

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[53] Further official assistance to Romania was blocked by the lack of an operational agreement with the IMF. In May Romania finalized the preliminary negotiations for a new $475 million IMF standby credit, but at the moment of writing this *Survey*, this agreement was still awaiting approval by the Fund's board of directors.

[54] IMF and the World Bank, "The economic consequences of the Kosovo crisis: a preliminary assessment of external financing needs and the role of the Fund and the World Bank in the international response", 16 April 1999, and "The economic consequences of the Kosovo crisis: an updated assessment", 25 May 1999 (IMF internet website).

suggestions are often made as though the Marshall Plan was simply a synonym for providing large amounts of financial assistance to solve large problems, preferably on the generous terms provided to western Europe by the United States in 1948. Financial assistance *is* very important – and the reconstruction of Yugoslavia and the rehabilitation of south-east Europe in general will require large amounts of it; but the UN/ECE secretariat has long emphasized a number of features of the Marshall Plan which make a similar approach appropriate for the transition economies, and especially those of south-east Europe:

- The programme must be set in a realistic time frame, i.e. assistance must be maintained long enough to create a high probability of success – "Le succès de la plupart des choses dépend de l'appréciation exacte du temps qu'il faudra pour les réussir" (Montesquieu);
- Assistance should be provided in the framework of national programmes for recovery and reconstruction, containing targets for the main economic variables and for major institutional changes, together with an account of how each government proposes to achieve its objectives;
- These programmes should be drawn up by the relevant national policy makers and should take into account national sensibilities, values and history rather than be driven by a standard international model, "one policy fitting all"; it is, of course, understood that the broad objective is to create a market economy, of which there are many varieties, within a political framework of democratic institutions;
- A regional framework might be created to coordinate national actions and international assistance in areas where there are public goods, significant externalities, economies of scale, etc. Transport infrastructures, transboundary environmental issues and the diffusion of international norms and standards, for example, are areas where such coordination can be highly productive;
- The various national programmes could be peer-reviewed, preferably in the same regional framework, in order to provide national policy makers with a broader regional perspective. This could help to avoid inconsistent national decisions being made and encourage further cooperation among the participating countries, not least in clarifying their own preferences and priorities for the benefit of those providing assistance. Such a regional framework might also help to improve coordination between at least twenty-four potential donor countries and the plethora of international organizations involved in various, largely, bilateral, forms of assistance;
- The continued release of funds should be conditional on intermediate targets being met – the removal of such programmes from the traditional Bretton Woods framework does not imply a release from conditionality;
- Assistance needs to be delivered promptly at the start of the programme in order to create a momentum for change and create positive expectations for the recovery of output and fixed investment.

One prominent feature of the Marshall Plan, which is often overlooked at the present time when the term "assistance" is loosely used to cover everything from gifts to loans made at market (or even higher) rates of interest, is that it consisted for the most part of grants accompanied by a relatively small proportion of technical assistance. Most of the financial "assistance" provided to the transition economies since 1989 has consisted of loans, some at concessional but most at market rates of interest. This pattern appears to be continuing in the discussions of reconstruction in Kosovo: of the $591 million pledged by the international community to compensate for the incremental effects of the Kosovo crisis on six south-east European economies, over two thirds consists of loans (see above). It might be questioned, however, whether increasing the foreign debt of these countries is really the best way to provide them with assistance. Some of them – Bulgaria, Bosnia and Herzegovina, and Yugoslavia – are already regarded as "heavily indebted countries" and some of the others could fall into this category if their prospects for economic growth and exports continue to deteriorate sharply.

One of the underlying themes of this chapter is that the economies of south-east Europe are beset with chronic and deep-seated structural problems which will not disappear simply by repairing the damage caused by the Kosovo conflict. They are burdened with a large proportion of the capital stock which is economically non-viable but which requires very large amounts of investment to replace. At the same time, the institutional framework required to support large-scale structural adjustments, both economic and social, in a market economy environment are either missing or incomplete. Both sets of problems – economic restructuring and institution building – are complex and will require a longer time for their solution than is normally provided for in the standard prescription of rapid liberalization and stabilization. In this situation the danger is that debt servicing obligations will run ahead of sustained improvements in debt servicing capacity with the result that foreign direct investment will continue to hold back and there will be an increased probability that the transformation process will be checked by the tightening of macroeconomic policies designed to release resources for debt servicing.

A generous supply of grant aid, conditional on the recipient countries presenting coherent programmes for deep structural and institutional reform, can help the south-east European economies to escape from the threat of this stagnation trap – and the sooner this is perceived to be the case, the more rapidly will be the recovery in fixed investment, both domestic and foreign. There are also other arguments for significant amounts of grant aid rather than loans, particularly in the early stages of the transformation process. One of the major lessons of the Marshall Plan was the importance of prompt assistance at the very start of the recovery process. It is much easier to meet this requirement with grants than with loans which are subject to long and complex legal negotiations. If speedily delivered grants are successful in creating positive expectations and a forward momentum for change then they will provide a much better "return" to the donor countries than many of the loans provided to most of the transition economies since 1989.

The Marshall Plan as a model for a regional and cooperative programme has been stressed because this dimension is highly relevant to the condition of south-eastern Europe today. Regional cooperation is generally very weak in the Balkan and Danubian countries. This is not just a result of the violent breakup of the former SFR of Yugoslavia: it is of long standing and reflects the region's relative economic backwardness, the weak trade and other economic links among the countries of the region, and their political marginalization from the main currents of postwar integration in western Europe, a marginalization which if anything has increased in the 1990s. Although most countries in the region are seeking to strengthen their ties with the EU and NATO, increased regional cooperation could nevertheless prove essential for helping to boost the economic recovery of the countries in the region and to improve their general security not only from armed conflict but also from the risks of crime (especially drugs and arms trafficking), illegal immigration, transboundary environmental threats and so on. Cross-border cooperation in opening borders and improving regional transport infrastructures can, in a context of increasing confidence about economic recovery, help to significantly lower tension in the region and increase its attractiveness as a location for fixed investment.

Although regional cooperation is generally weak it is not entirely absent and it has recently been encouraged by initiatives such as the EU's Royaumont Process and the South-East European Cooperation Initiative (SECI). The latter[55] is a step forward in the process of building a framework for regional cooperation in which the UN/ECE has been actively involved.[56] It has already shown tangible results in harmonizing and simplifying procedures related to border crossing and has demonstrated the capacity and the will of the participating states to address collectively problems of common interest. The south-east European transition economies, however, need to be encouraged to undertake much bolder steps towards regional economic cooperation, liberalization and promotion of regional trade, and eventually for an increased regional economic integration which can support the way for their future integration into a larger and more united Europe. But in whatever form a regional framework develops it is important to stress once again that Yugoslavia is of central importance for any improvement in the regional economy; most of the region's problems are unlikely to be solved without its cooperation and it must therefore play a major role in any institutional arrangements.

One of the problems facing the implementation of a Marshall Plan type of development programme in south-east Europe is likely to be the low absorptive capacity of the recipient countries which may limit the efficiency and the speed of employing productively the inflow of resources. In fact, one of the key points of such a programme would be to target specific measures to create or expand the local absorptive capacity. The building and strengthening of the institutional environment is obviously one of the factors that not only enhances economic reforms but also increases the absorptive capacity of an economy. Hence the emphasis on institution building should occupy a central place in the rehabilitation programme. This in turn implies that if the programme is seriously

[55] Launched by the United States, it has now received the support of the EU and the Russian Federation, which makes it a potentially useful tool for developing a much bigger programme for the task of political and economic reconstruction and development in the region: this will require, as suggested above, large amounts of financial assistance, but also a major and long-term political commitment by the major donors to the region over many years.

[56] Although the details of national and regional programmes should be drawn up by the countries themselves, as emphasized above, some of the areas where the United Nations Economic Commission for Europe has been active in SECI and can deploy special expertise are almost certain to figure among the national and regional priorities. These include: water and health, air pollution abatement and soil decontamination, *environmental problems* where there is both a need for urgent action in the short term and for greater regional cooperation for longer-term solutions; *transport*, where the regional system suffers from both inadequate infrastructure and from insufficient regulations and associated institutions to ensure the safe, efficient and rapid movement of goods and people within and between countries; in the *energy* sector there are acute problems of basic supply and distribution which impinge heavily on the prospects for economic growth in the region and on the environment; the provision of a strong institutional framework for *human settlements*, including land administration, to support the clarification of property rights, urban renewal etc. In addition, the UN/ECE has programmes for *enterprise development*, for particular industries such as *forests and forest products*, and for specific public sector activities such as *statistics*. In all these areas there is a well-developed framework for intergovernmental cooperation, to which all the south-east European countries already belong, and which can be used to focus quickly on the urgent issues facing member countries.

committed to the rehabilitation of the south-east European economies, then it needs to be a joint, long-term cooperative effort by both the donors and the recipient countries. Thus it should set specific and concrete long-term targets and these targets should be backed by sufficient resources. Consequently the programme should contain a comprehensive financial component specifying how the necessary resources will be raised as well as the success criteria for their disbursement at each stage of the programme. In view of the extremely difficult situation in these countries, the importance of the availability of non-debt finance is again underlined.

The emphasis on the need for a long-term programme does not of course diminish the importance or the urgency of measures that must be carried out in the short and medium term. Rather, the longer-term perspective emphasizes the importance of sequencing and provides a context for the more urgent measures, many of which will have a long-term influence. Thus, an urgent task in Kosovo is the reconstruction of civil authority and, *inter alia*, the establishment of an effective authority for land administration to re-establish clarity in the property rights of thousands of refugees. Similarly, capacity building can also be helped in the short run by encouraging, for example, the creation or expansion of small enterprises to assist in the reconstruction of the housing stock in Kosovo[57] or by encouraging imports of food from neighbouring countries[58] to meet the domestic shortfall rather than meeting it from the surplus food stocks of the richer European countries. Through such initiatives effective demand can be injected into the local and regional economies and they are consistent with the objectives of promoting enterprise and the development of intraregional trade.

One conclusion that should also be clear, however, both from the experience of the Marshall Plan and from the transition process in south-east Europe since 1989, is that there are no easy answers and no short cuts. The experience of Bosnia and Herzegovina since the Dayton Accord is also a reminder that although the military parts of a settlement can be agreed fairly quickly, economic reconstruction, even when funds are provided, can be an extremely slow process if the various parties are unwilling to cooperate. Nevertheless, in other circumstances, generous assistance can improve the chances of greater cooperation simply by increasing the opportunity cost of non-cooperation.

A final lesson to be drawn from the Marshall Plan is for the potential donor countries of western Europe. Essentially the Marshall Plan represented a realistic and far-sighted appraisal of what was required to ensure long-term economic and political stability in western Europe – and, as it turned out, the intelligent pursuit of self-interest proved to be compatible with generosity towards the less fortunate and more vulnerable. West European leaders will need to demonstrate a similar degree of farsightedness and commitment now that the bombs have stopped falling in Serbia and Kosovo. If they do not, economic backwardness and stagnation in south-eastern Europe will simply preserve an environment in which threats to the security of Europe as a whole will continue to recur.

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[57] For example, small-scale, labour-intensive sawmills can be set up quite quickly and cheaply. Since there will be little or no harvest in Kosovo in 1999 these could help to absorb some rural unemployment or underemployment.

[58] As noted above, exports of foodstuffs from countries such as Bulgaria have been especially hard hit by the effects of the conflict.

CHAPTER 2

THE ECONOMIC SITUATION IN THE ECE REGION IN MID-1999

2.1 The global context

World output growth slowed down sharply in the course of 1998 under the cumulative impact of the financial and currency crises in Asia, Russia and Brazil. For the year as a whole, real GDP rose by only 2.5 per cent down from 4.2 per cent in 1997.[59] This was the smallest annual increase in world output since 1991. Current forecasts are for a stabilization of world output growth at a rate of 2.5 per cent in 1999 followed by a strengthening to some 3.5 per cent in 2000.[60]

The prospects for continued economic expansion stand in sharp relief to widespread fears prevailing in the autumn of 1998 that the financial turbulence in the wake of the Russian devaluation and debt moratorium could push the world economy into recession. These fears have receded against the background of restored financial market stability, the recovery of international share prices and the very limited contagion from the currency crisis in Brazil. In addition, the willingness of foreign investors to lend to emerging markets appears to have increased again, although net private capital flows are expected to remain subdued. Yield spreads have fallen from their high levels attained in late 1998, although they remain, in general, above the rates prevailing before the Asian crisis broke in mid-1997.

In the first months of 1999 the real global economy has remained full of contrasts. The United States economy has continued to expand at a robust rate. In western Europe, the marked cyclical slowdown in the second half of 1998 has been arrested but as yet there are no signs of a strengthening in the forces for economic growth. In Japan, the growth effects of a succession of fiscal stimuli have masked a continued depression in the spending propensity of the private sector. In contrast, there is increasing evidence of some strengthening of growth factors in the Asian emerging markets most directly affected by the financial crisis of 1997, although only relatively modest output growth is expected in 1999. In Latin America, the adjustment to the reduced inflow of foreign capital and the adverse effects of the recession in Brazil has been depressing activity levels. In the transition economies, the recession in Russia, the cyclical slowdown in western Europe and the repercussion of the Kosovo conflict are all expected to lead, at best, to only marginal growth in aggregate output in 1999.

Against this background, the volume growth of world merchandise trade is expected to remain subdued in 1999. Forecasts are for an increase of only 3.5 per cent, the same rate as in 1998.[61] This is well below the average increase between 1990 and 1997.

These prospects for moderate growth in world output and trade, however, are still surrounded by considerable downside risks (see section 2.2 below).

In *Japan*, there was a strong and unexpected upturn in real GDP by 1.9 per cent in the first quarter of 1999 (compared with the preceding quarter). This followed five consecutive quarters during which aggregate output fell by a cumulative 4 per cent. The rebound reflects in the main the impact of last year's fiscal packages on public investment and an increase in private consumption expenditures, which is surprising in view of the deteriorating labour market conditions. It is possible that this increase in household spending was influenced by the distribution of consumption vouchers (equivalent to transfer payments) by the government in February, a somewhat unconventional method of stimulating demand. To some extent, business investment may have been supported by the measures introduced in late 1998 to facilitate access to credit in the face of reluctant bank lending. There was a small increase in business fixed investment which, nevertheless, is surprising given the considerable margins of excess capacity. The marked decline in the volume of exports of goods and services during 1998 petered out in the first quarter of 1999. The strong appreciation of the yen against the dollar, which started in autumn 1998 and which depressed export growth, was arrested in early 1999 and has since been partly reversed. Wholesale prices maintained their downward tendency and consumer prices also fell briefly in early 1999, but there has been no evidence of

[59] IMF, *World Economic Outlook* (Washington, D.C.), April 1999.

[60] Ibid.

[61] *WTO Focus*, No. 39 (Geneva), April 1999.

a self-reinforcing deflationary spiral. The first quarter national accounts data are still preliminary and may be subject to a more or less large downward revision. In any case, there are still widespread doubts that the economy has returned to a sustainable growth path. Indeed, there are fears that the waning of the fiscal impulses could lead to renewed downward pressure on domestic activity levels later in the year. It is significant that in early June 1999 the government announced a $4 billion package of measures designed to create employment and foster corporate restructuring. In fact, in April 1999 the unemployment rate rose to 4.8 per cent, a postwar high. The need for comprehensive corporate restructuring and the reduction of excess capacity will continue to weaken business fixed investment and lead to further increases in unemployment. The latter, in turn, will dampen consumer confidence and spending, which are already affected by concerns over the stability of the pension system. The surplus in foreign trade of goods and services rose, falling exports being more than offset by a stronger decline in imports. The deficit on transfers, however, increased. In the event, the current account surplus fell to $25.7 billion, equivalent to 2.5 per cent of GDP in the first quarter of 1999, down from $27.7 billion or 2.9 per cent of GDP in the same period of the preceding year. The scope for further easing of macroeconomic policy to support domestic activity appears now to be virtually exhausted. Since early March 1999, the Bank of Japan's overnight lending rate has been close to zero and fiscal policy faces the problem of high budget deficits and the need to control the potentially explosive dynamics of the debt to GDP ratio. A major unresolved issue is the effective restructuring of the banking sector.

In the *other Asian economies* most affected by the financial crisis of 1997, the deep recession in 1998 appears to have bottomed out, supported by an easing of macroeconomic policies. The general feature is a return to positive output growth rates in 1999. Relatively robust annual output growth of some 4.5 per cent is currently forecast for the Republic of Korea, but more moderate rates, within a range of 0.5-2 per cent, are expected for Malaysia, the Philippines and Thailand. Only in Indonesia is there likely to be another year of falling output. The background to this improved performance is the stabilization of financial markets (strengthening exchange rates, recovery of equity prices and falling spreads on bond yields) and progress, albeit to varying degrees, in financial sector reform including the recapitalization of banks as well as corporate sector restructuring. The general strengthening of economic growth forces, even if, on average, they are only moderate, should stimulate intraregional trade, with positive feedback effects on domestic activity levels. It also appears that the problem of obtaining adequate trade financing, which had been restraining export growth since mid-1997, has lost some of its importance.

In *China*, the rate of economic expansion will slow down in 1999, but for the year as a whole real GDP is still expected to increase by some 6.5-7 per cent, down from nearly 8 per cent in 1998. Economic activity has been supported since the second half of 1998 by additional public infrastructure investments and an easing of monetary policy. Exports started to falter in the second half of 1998 in the face of reduced price competitiveness vis-à-vis producers in South-East Asia and the Republic of Korea. The government expects exports to decline in 1999 in comparison with 1998.[62] The stability of the exchange rate of the renminbi against the dollar remains, however, central to economic policy. The fragility of the financial sector constitutes a major downside risk for the economic outlook.

In *Latin America*, a sharp slowdown in capital inflows and falling commodity prices were the main factors behind the pronounced deceleration in economic growth in 1998. Real GDP rose by 2.3 per cent compared with 5.2 per cent in 1997. Current forecasts are for a decline in real GDP by some 0.5 per cent in 1999, which would be the worst outcome in the current decade. Nevertheless, prospects have improved since the floating of the Brazilian real in mid-January 1999. At that time a much deeper recession was expected, notably in Brazil itself, which accounts for some 40 per cent of total GDP produced in the region. To some extent the improved outlook reflects the strikingly limited inflationary effects of the large depreciation of the real. Against a background of tighter fiscal and monetary policy and depressed domestic demand, there was only a short-lived rise in inflation, which fell back to its pre-crisis level in April. This, and the return of stability to the domestic financial markets, has enabled the central bank to progressively lower official interest rates since late March. The effects of the currency depreciation and the domestic recession in Brazil will be mainly felt in the member states of Mercosur, especially Argentina and Uruguay. Trade links with other countries in Latin America are relatively weak. In Argentina, the economy moved into recession in late 1998. The loss of competitiveness associated with the appreciation of the dollar (and the depreciation of currencies in East Asia and Brazil) has led to continuing concern as to whether the current exchange rate policy (a dollar peg in the framework of a currency board) can be sustained. In mid-May 1999, the peso came under strong speculative selling pressure, which caused temporary instability throughout the region's financial markets. In this context, the Argentine authorities indicated that they were adamant about defending the

[62] "Asian economic recovery hits Chinese exports to Europe", *Financial Times*, 25 April 1999.

dollar peg and announced that they were considering the adoption of the dollar as legal tender, as an ultimate defence against speculative attacks.[63] An alternative proposal has been the adoption of a single currency by the member states of Mercosur, which would, however, probably require a much deeper regional economic integration similar to Europe.[64]

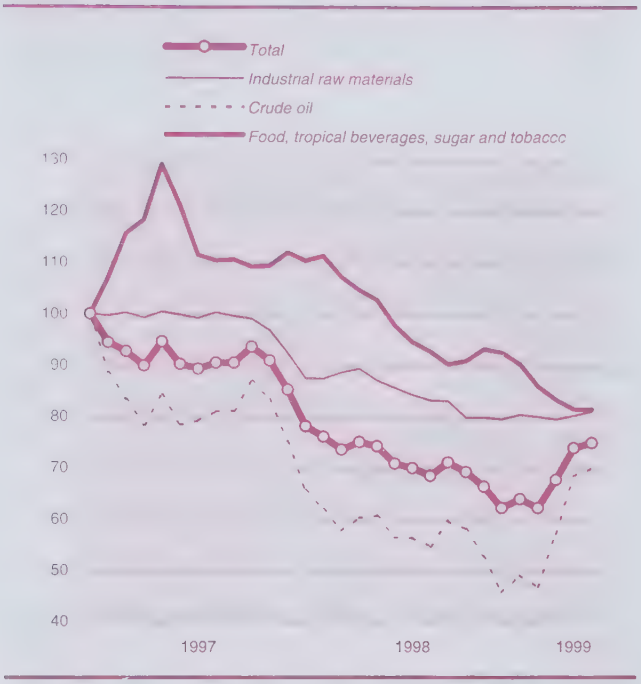
International commodity prices

There was a generally sharp fall in *international commodity prices* in 1998 which reflected to a large degree the adverse effects of the Asian crisis on demand. Price developments for the main commodity groups, however, have diverged during the first five months of 1999. There was a marked recovery in petroleum prices which contrasts with the continued slide in the prices of food products. Industrial raw material prices have been fairly stable (at a low level) since the final quarter of 1998 (chart 2.1.1). Commodity prices, in general, will continue to be restrained by the existing large margins of excess capacity. Recent price developments have been influenced, in some cases, by output cuts (e.g. oil and copper) or expectations of a recovery in demand later in the year.

The global cuts in oil production (for a period of one year) agreed by OPEC in March 1999 reflect an attempt to arrest and reverse the fall in oil prices and to increase revenues. Non-OPEC countries, such as Mexico, Norway and Oman, have also announced that they will curtail oil production. Available data and industry estimates indicate that so far there has been a high degree of compliance with the agreed cutbacks.[65] Crude oil prices, on average, rose by 50 per cent between February and May 1999, but they were still below their level at the beginning of 1998. In early June, however, there was some downward pressure on prices. In view of the expected modest growth in world petroleum consumption (some 1¼ per cent) in 1999 it is clear that maintaining these higher oil prices will depend, at least in the short run, on effective control of supply. Non-oil commodity prices are expected to recover somewhat from their depressed levels on account of increasing demand in line with the strengthening of economic activity (notably in Asian emerging markets) in the second half of the year.

CHART 2.1.1

World commodity prices, January 1997-May 1999
(Indices, January 1997=100)



Source: Hamburg Institute for Economic Research (HWWA).
Note: Indices calculated on the basis of current dollar prices.

2.2 The western market economies

In *western Europe*, the cyclical slowdown in the second half of 1998 reflected in the main the weakening of industrial activity in response to falling export demand. This dampened activity levels in sectors producing tradeables and probably led firms to lower their investment plans. In fact, manufacturing output fell in the final quarter of 1998 by some 1¼ per cent, compared with the preceding quarter, and was only about 1 per cent above its level in the final quarter of 1997. Real GDP rose by only 0.3 per cent over the same period, in both the euro area, and in western Europe as a whole.

Preliminary estimates suggest, that real GDP in the euro area increased by 0.4 per cent in the first quarter of 1999 (table 2.2.1) and was only 1.8 per cent higher than in the first quarter of 1998 (chart 2.2.1). For western Europe as a whole, real GDP rose by slightly less, reflecting the stagnation of aggregate output in the United Kingdom. Partial data also point to relatively

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[63] This would possibly lead to more favourable external financing conditions but would also require a high degree of real economic convergence with the United States economy. An important issue is whether the United States Federal Reserve would be willing to act as lender of last resort in the event of a domestic financial crisis in Argentina. The adoption of the dollar as legal tender is not equivalent to "dollarization", which is generally understood to describe a situation where a more or less large part of financial assets held by domestic residents are denominated in dollar or other foreign currencies.

[64] B. Eichengreen, *Does Mercosur Need a Single Currency?*, NBER Working Paper, No. 6821 (Cambridge, MA), December 1998.

[65] In the past, several agreements on oil output quotas were not respected. The pressures to adhere to the present one might be greater, however, in view of the considerable financial losses and related economic problems associated with the steep fall in oil prices in 1998. This is also reflected in strong political support for this latest agreement. International Energy Agency, *Monthly Oil Market Report* (Paris), April 1999.

TABLE 2.2.1

Real GDP in the seven major economies, 1997 QIII-1999 QI
(Percentage change over previous quarter)

	1997		1998				1999
	QIII	QIV	QI	QII	QIII	QIV	QI
France	0.8	1.1	0.8	0.8	0.3	0.7	0.3
Germany	0.4	0.5	1.0	–	0.5	-0.1	0.4
Italy	0.3	0.2	-0.2	0.8	0.5	-0.3	..
United Kingdom	0.8	0.8	0.4	0.3	0.3	0.1	–
4 countries above	0.6	0.6	0.6	0.5	0.4	0.1	..
Canada	1.4	0.8	0.7	0.3	0.6	1.2	1.0
United States	1.0	0.7	1.4	0.5	0.9	1.5	1.0
Japan	1.0	-0.9	-1.2	-0.7	-0.3	-0.8	1.9
Total above	0.9	0.4	0.6	0.2	0.5	0.6	..
Memorandum item:							
Euro area	0.6	0.7	0.6	0.6	0.4	0.3	0.4*

Source: National statistics.

Note: Data are seasonally adjusted.

sluggish manufacturing activity. Exports of goods in the first quarter of 1999 remained below their corresponding level of a year earlier, and import demand was also weak. Industrial confidence remains relatively depressed, although it has improved slightly in recent months. In contrast, consumer confidence, which is at relatively high levels, deteriorated slightly until May 1999. In principle, low real interest rates should encourage spending on interest-sensitive expenditure items and this should have supported private consumption and fixed investment in the first quarter of 1999. Private consumption is also being supported by the rise in aggregate incomes associated with further gains in employment and average earnings. Given the weak trade links with Yugoslavia and other south-east European countries, the Kosovo conflict has had, in general, little impact on recent economic developments, although there have been significant sectoral impacts in Greece, Italy and Turkey, especially on the tourism industry.

The recent upturn in international commodity prices (especially of oil), if maintained, will effectively remove a source of disinflation, which has contributed to reducing inflation to very low levels in early 1999. The sharp rise in international oil prices was quickly reflected in relatively large price increases for energy products at both the producer and consumer levels in March and April. The impact, however, was partly offset by still falling inflation for other goods and services. While the so-called "core inflation rate" (which excludes prices of food and energy products) continued to fall, the headline rate edged upward (chart 2.2.2). In fact, in the euro area, the all items consumer price index rose less than the core inflation rate between January 1998 and March 1999, but in April 1999 this gap was closed. The overall inflation rate, nevertheless, has remained very moderate at an average 1.2 per cent. This reflects not only intensive competitive pressures at the retail level but also the general absence of significant domestic cost pressures. The divergent cyclical developments and the associated relative strength of domestic demand, however, have contributed to the persistence of quite large inflation differentials among the member states of the euro area. Inflation rates significantly below 1 per cent in France and Germany in April contrasted with increases of 2 to 2.7 per cent in Ireland, Portugal and Spain. In Spain, the government recently adopted a package of measures (including lower utility prices, and deregulation of certain service sector activities) which is expected to put downward pressure on the rate of increase in prices.

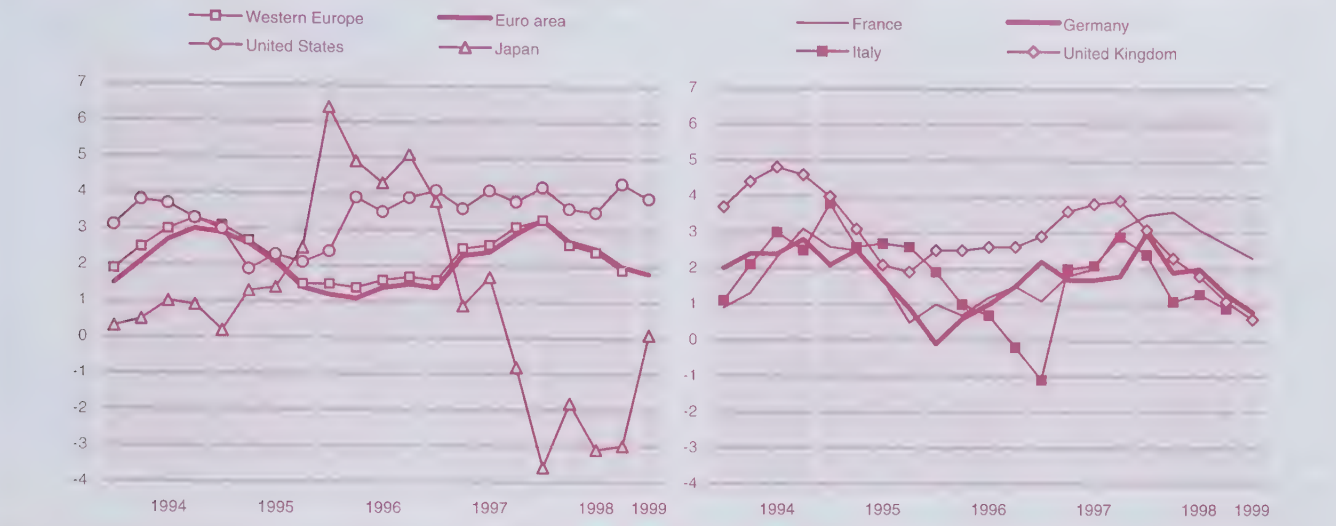
Inflation has also remained moderate in countries outside the euro area. In Greece, for example, restrictive economic policies, designed to meet the convergence criteria for EMU membership, have led to a further large fall in the inflation rate to below 3 per cent in April. And in the United Kingdom, inflation (as measured by the retail price index excluding mortgage interest payments) fell to 2.1 per cent in May, significantly below the target of 2.5 per cent set by the government. In Turkey, a traditionally high-inflation country, consumer price inflation has fallen sharply from 102 per cent in January 1998 to some 64 per cent in April 1999. This reflects, *inter alia*, the pronounced weakening of domestic demand and control over administered price increases.

In the west European labour markets, there was a slight fall in the number of persons unemployed in 1998, with a fall in the standardized unemployment rate from 9.6 per cent to 9.1 per cent between January and December 1998. Available data suggest that this tendency has continued in early 1999. Thus, in the European Union, the unemployment rate was 9.6 per cent in April compared with 9.7 per cent in December 1998. In the euro area, the average unemployment rate fell by 0.2 percentage points to 10.4 per cent over the same period. The slowdown in economic activity has been depressing the demand for labour, especially in the export-oriented sectors of manufacturing industry, but this has been more or less offset to a large extent, by increased demand for labour in services and construction.

At the time of writing, national accounts data for the first quarter of 1999 are available only for a few countries. In *France*, real GDP rose by 3.2 per cent in 1998, the largest increase in this decade and a reflection of robust private consumption expenditures and an upturn in business fixed investment. Favourable patterns of sectoral specialization and market orientation in international trade have cushioned the adverse effects of the crises in emerging markets on export demand. But real GDP rose only by a modest

CHART 2.2.1

Changes in real GDP, 1994 QI-1999 QI
(Percentage change over same quarter of preceding year)



Source: National statistics.

Note: Data are seasonally adjusted. Euro area excludes Ireland and Luxembourg. Western Europe: euro area plus Denmark, Norway, Sweden, Switzerland and the United Kingdom.

0.3 per cent in the first quarter of 1999, down from 0.7 per cent in the preceding quarter. This slowdown largely reflects the weaker growth of private consumption. In addition, there was a more moderate rate of inventory accumulation, which had a negative impact on growth, although this was partly offset by an increase in fixed investment. The corporate sector increased expenditures on machinery and equipment, and households, encouraged by low mortgage rates, invested more in residential buildings, which stimulated the construction sector. Both exports and imports fell in the first quarter of 1999, the net effect being neutral for overall economic growth. Employment rose by 0.4 per cent compared with the final quarter of 1998, but the unemployment rate remained stable at 11.4 per cent in the first four months of 1999.

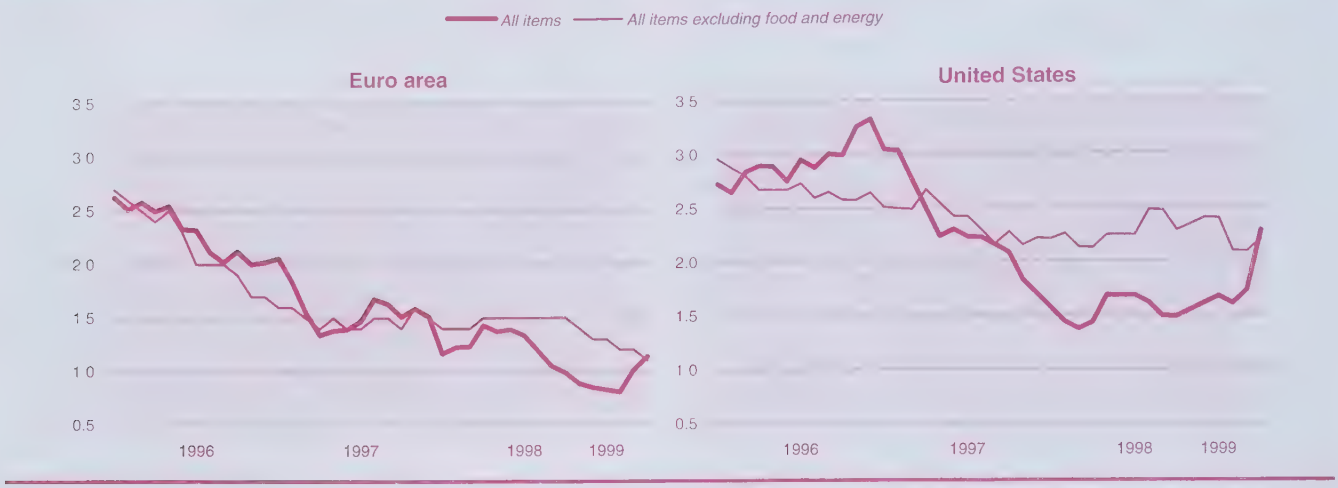
In *Germany*, the adverse trade effects of the crises in Asia, Russia and Latin America were increasingly felt in the second half of 1998. After falling by 0.1 per cent between the third and final quarters of 1998, economic activity picked up slightly in the first quarter of 1999, real GDP rising by 0.4 per cent. This reflected increased consumer and fixed investment expenditures which, however, were largely offset by a sharp slowdown in inventory accumulation (which subtracted nearly 2 percentage points from overall economic growth). Exports fell for the third consecutive quarter, and there was a slight fall in imports as a result of the weakness of aggregate domestic demand. As in France, the effect of changes in real net exports on domestic activity were neutral, following two consecutive quarters when their growth contribution was negative. Employment data for 1999 are currently not available due to changes in statistical survey methods. The unemployment rate was 9 per cent in March 1999, unchanged from February. The wage bargaining round in early 1999 led to much larger wage increases than in preceding years, but the increase in labour costs is probably broadly neutral in its effect on the price competitiveness of firms.

In *Italy,* national accounts data for the first quarter of 1999 were not available at the time of writing this *Survey*. Short-term indicators point to the continuing weakness of domestic and foreign demand. Exports have been affected by the weak growth of demand in major markets. Industrial output was very volatile during the first quarter of 1999, but there was only a slight increase over the preceding period, and it remained about 1.5 per cent below the corresponding level of 1998. Employment growth slowed down to 0.3 per cent in the first quarter of 1999 and consumer confidence continued to weaken throughout the first five months of 1999. Growth expectations for 1999 have been scaled back and current forecasts point, at best, to an increase in real GDP of 1.5 per cent.

In the *United Kingdom*, real GDP stagnated in the first quarter of 1999 when there was an increase over the previous quarter of only 0.1 per cent. It is now generally expected, however, that a recession will be avoided. The marked cyclical downturn reflects to a large degree the lagged effects of monetary tightening and tight fiscal policy, which were accentuated by the effects of the strong pound on net export growth.

CHART 2.2.2

Changes in consumer price indices in the euro area and the United States, January 1996-April 1999
(Percentage change over same month of preceding year)



Source: Eurostat and Bureau of Labor Statistics.

Domestic demand in the first quarter of 1999 was supported by rising private and government consumption expenditures. In contrast, gross fixed capital formation fell significantly following two consecutive quarters of strong growth, and changes in inventory accumulation also dampened economic activity. Exports continued to fall and import demand slowed down to near stagnation. Changes in real net exports made a negative contribution to growth for the sixth consecutive quarter. Differences in the development of different sectors remain marked. The manufacturing sector moved into recession in the first quarter of 1999, output falling for the second consecutive quarter, while construction activity remained sluggish. The services sector continues to grow but the pace of expansion has slowed down further, low aggregate growth in the first quarter is actually masking a fall in the real value added of business services and finance. Employment edged up by 0.2 per cent with labour shedding in manufacturing industry offset by rising employment in services. Labour market conditions are still tight, but business surveys suggest that skilled labour shortages are less acute and that recruitment plans are being reduced. The unemployment rate has remained relatively stable at slightly more than 6 per cent since mid-1998, which is close to a 20-year low.

In the *Netherlands*, the business cycle passed its peak in 1998, with both domestic demand and export growth weakening in the second half of the year. Real GDP rose by only 0.6 per cent in the first quarter of 1999, down from 1.3 per cent in the preceding quarter, but industrial output fell by half a percentage point. The details of expenditure were not available at the time of writing.

In *Norway*, there was a relatively large increase in real GDP by 1.1 per cent in the first quarter of 1999 (over the preceding quarter). This reflected in the main a striking recovery in private consumption expenditure which contrasts with a large fall in fixed investment and a slight fall in exports.

In *Switzerland*, the rate of economic growth slowed to 0.7 per cent in the first quarter, down from 1.1 per cent in the preceding period. Strong growth in private consumption expenditure was offset by weakening investment and export demand.

Among the other smaller economies, industrial output statistics point to a wide variation in performance. There was a sharp contraction in Belgium in the first quarter and partial data also point to falling activity levels in Sweden. Production broadly stagnated in Spain, albeit at a high level of activity, but buoyant growth continued in Finland, Ireland and Portugal.

In the *United States*, the rate of economic expansion has remained strong over the first five months of 1999. Manufacturing has gained new momentum: between March and May, monthly output rose at a steady rate of 0.4 per cent, equivalent to an annual rate of nearly 5 per cent. Capacity utilization rates have edged upward slightly, but the margin of spare capacity is still considerable. The Purchasing Managers' Index, a gauge of business activity in the manufacturing sector, rose in May to its highest level since October 1997, an indication of the dominance of expansionary forces. Construction activity continues to

grow at a brisk rate against a background of favourable mortgage rates and strong home sales. Consumer confidence is very strong, rising in each of the six months ending in May 1999, the longest continuous upturn in the 32 years for which this index has been compiled. Against this background, retail sales have expanded at a brisk pace.

Real GDP rose by 1 per cent in the first quarter compared with 1.5 per cent in the previous quarter. The slowdown was due to continuing strength in both personal consumption and fixed investment being offset by adverse changes in real net exports and stockbuilding. Household incomes continue to benefit from a combination of higher average earnings and rising employment, as well as from the wealth effects associated with rising asset prices. Aggregate personal savings turned negative in the first quarter of 1999 after falling to zero in the preceding quarter.

The labour markets have tightened further in 1999. Non-farm employment has increased steadily, by 0.6 per cent between January and May, although labour shedding in manufacturing industry has continued. The unemployment rate was at an historic low of 4.2 per cent in May. Pervasive skilled labour shortages in various sectors have resulted in upward pressures on wages which, however, appear to have been offset to a large degree by productivity gains.

Despite buoyant demand, consumer price inflation has remained moderate, reflecting intense competition at the retail sales level. Rising energy prices contributed significantly to a large increase in the monthly inflation rate to 0.7 per cent in April. This triggered fears of a more persistent rise in inflation, but in fact consumer prices were stable in May and were only 2.1 per cent higher than 12 months earlier.

The significant differential strength of demand at home and abroad has led to a further rise in the current account deficit to $68.6 billion or 2.8 per cent of GDP in the first quarter of 1999, up from 1.8 per cent of GDP in the same quarter of the preceding year. The main factor behind this further deterioration was the rise in the merchandise trade deficit. It is noteworthy that the surplus in services has fallen since the second half of 1997 and that the balance on the income account has been in deficit since the second quarter of 1998.

In *Canada*, the economy maintained the high momentum attained in the final months of 1998, mainly under the influence of rising exports to the United States (to which Canada ships more than three quarters of its exports). Against a background of rising incomes and employment, private consumption expenditure strengthened markedly in the first quarter of 1999 and fixed investment also increased. In sum, real GDP in the first quarter of 1999 was 1 per cent higher than in the preceding quarter.

(i) Monetary conditions

In the *euro area*, monetary conditions continued to ease in the second quarter of 1999, reflecting the combined impact of the lowering of official interest rates by the ECB on 8 April and the continued depreciation of the euro. Expectations of a cut in interest rates had built up in the first quarter of 1999 in view of the deteriorating economic situation and inflation falling below 1 per cent. In the event, the ECB reduced its repo rate by half a percentage point to 2.5 per cent, which was more than generally anticipated.[66] As a result, nominal short-term interest rates in the money market also declined: in mid-June, they stood at 2.6 per cent, their lowest level in this decade (chart 2.2.3).

The average real short-term interest rate[67] fell to about 1.5 per cent in April (the latest month for which inflation data are available), which is more than one percentage point below the corresponding rate in the United States. The existing variation in the inflation rates in the member states of the euro area translate, however, into quite significant differences in their real short-term rates. In April, they ranged from 2 per cent and more in Austria, France and Germany to 0.6 per cent and less in Italy, the Netherlands, Portugal (where rates were actually negative) and Spain. The real rates in the other countries (Belgium, Finland and Ireland) were close to 1.5 per cent.

The fall in nominal short-term interest rates was accompanied by a slight rise in long-term rates to 4.2 per cent in May and a further increase to 4.4 per cent in the first half of June, leading to a wider maturity spread and an increase in the slope of the yield curve (chart 2.2.3). The recent rise in long-term bond yields reflects to a large extent spillover effects from the United States market, rather than an increase in inflationary expectations for the euro area.

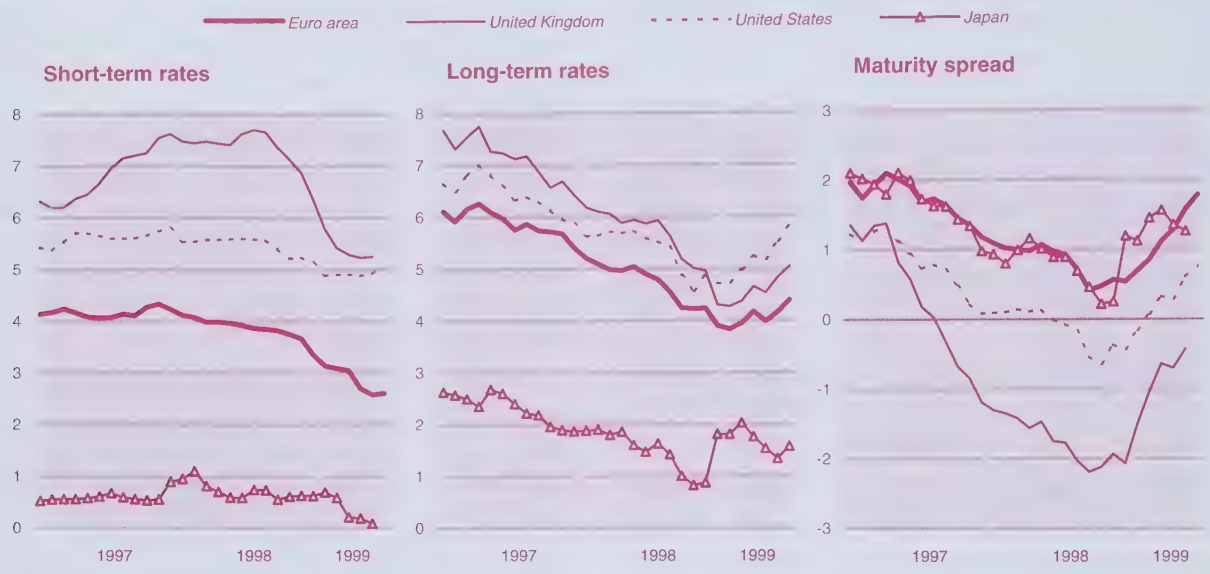
Outside the euro area, in the *United Kingdom*, the Bank of England's Monetary Policy Committee continued the process of monetary easing which began in the final quarter of 1998. The background to this was the increasing sluggishness of economic activity and, last autumn, perceptions of an increasing risk of recession, as well as inflation falling below the government's target of 2.5 per cent. Official interest rates have now fallen by 2.5 percentage points since June 1998, when monetary policy was last tightened to avoid overheating. It also seems likely that the latest lowering of official interest rates was also influenced by the continued strength of the pound, which at

[66] This was the first change in official interest rates made by the ECB and, as such, it will provide data for studying the transmission mechanism of monetary policy in the single currency area and the importance of regional differences in the transmission process.

[67] Based on national definitions of consumer price indices.

CHART 2.2.3

Nominal interest rates, January 1997-June 1999
(Average monthly rates, per cent per annum)



Source: National statistics; OECD, *Main Economic Indicators* (Paris), various issues; European Central Bank; *Financial Times*, various issues.

Note: Short-term rates: three-month money market rates. Long-term rates: yields on 10-year government bonds. Maturity spread: long-term interest rates less short-term interest rates. The interest rates for the euro area prior to 1999 are GDP weighted averages of national rates. The figures for June 1999 are average rates for the first half of the month.

unchanged interest rates could have implied a high probability of inflation falling short of the government's target of 2.5 per cent over the next year. The strength of the pound relative to the euro can to a large extent be attributed to the large differential between short-term interest rates in the United Kingdom and the euro area. In May, the gap was 2.7 percentage points in favour of pound denominated financial assets. At the longer end of the maturity spectrum (yields on 10-year government bonds) the difference was only 0.7 percentage points. It is understood that the convergence of short-term interest rates will be required at such time as the United Kingdom might want to join EMU. Depending on cyclical developments, however, this process could also be facilitated by a rise in interest rates in the euro area.

In the *United States*, the stance of monetary policy has been left unchanged so far in 1999, following the progressive lowering of the target for the federal funds rate between end September and mid-November of last year.[68] This move was mainly designed to stabilize the international financial markets, but it has also provided a significant monetary stimulus to the real economy. Given the continued buoyancy of the economy, tight labour markets and associated concerns about the risk of mounting inflationary pressures, the Federal Open Market Committee (FOMC) decided in May 1999 to allow for a possible upward bias in the Fed's interventions in the interbank market for overnight funds.[69] This has been generally interpreted to signal an increased probability of a tightening of monetary policy in the months ahead.

Against this background, short-term interest rates, which had been rather stable at around 4.9 per cent in the months before, rose slightly to 5.1 per cent in early June. There were somewhat larger increases in long-term bond yields, which had spillover effects on the European bond markets although long-term rates in the euro area rose less than in the United States (chart 2.2.3).

In the foreign exchange markets, the euro's depreciation against the dollar and pound sterling has continued (chart 2.2.4). In mid-June, the euro had depreciated by nearly 12 per cent against the dollar and 8.5 per cent against the pound since early January of this year.[70] A striking feature has been the high volatility of the yen-euro exchange rate, but without any discernible trend over the same period. It is useful to recall that there have been previous episodes during

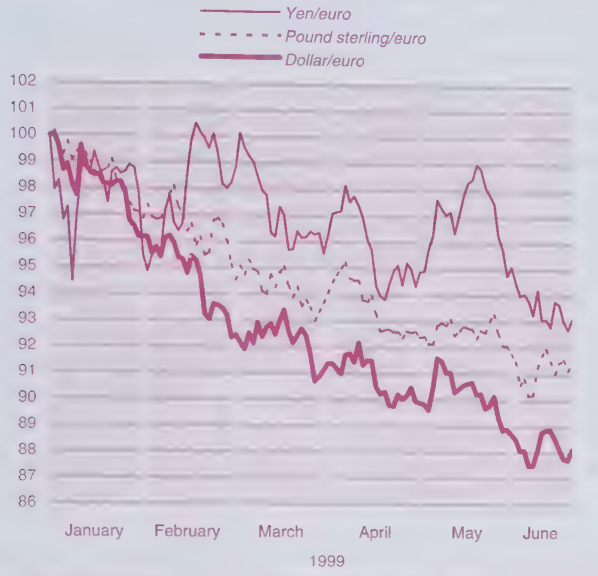
[68] There was also a lowering of the discount rate in mid-November 1998.

[69] This is the market where the federal funds rate is determined.

[70] The correlation coefficient between the daily exchange rates of the euro against the dollar and the euro against the pound is 0.98.

CHART 2.2.4

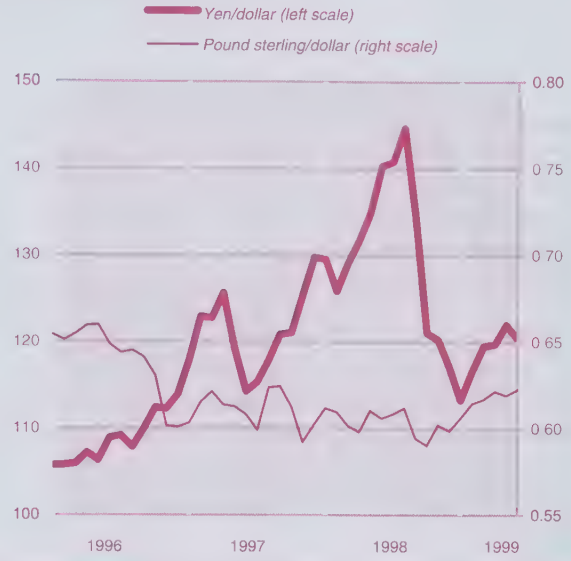
Euro reference rates, January 1999-June 1999
(Indices, 4 January 1999=100)



Source: European Central Bank.
Note: Daily rates from 4 January to 15 June 1999.

CHART 2.2.5

Bilateral exchange rates, January 1996-June 1999
(Monthly averages)



Source: United States Federal Reserve.
Note: The figures for June 1999 are the average rates of the first half of the month.

which the dollar appreciated strongly against the deutsche mark and other currencies in the old ERM, for example, over the period from late 1996 to mid-1997. The marked appreciation of the yen against the dollar witnessed in the second half of 1998 was partly reversed until May 1999. But there were renewed signs of yen appreciation in the first half of June, when market sentiment was probably shifting in favour of yen denominated assets on account of the strong GDP growth rates published for the first quarter (chart 2.2.5).

As is the case for the pound, the weakening of the euro against the dollar can to a large degree be attributed to the diverging business cycles and, related to that, the sizeable short-term interest rate differentials, which international investors expect to persist for some time to come. The end of the bombing of Yugoslavia has had apparently no significant impact on the euro exchange rate.

(ii) The short-term outlook

There has been no significant change in the short-term economic outlook for the western market economies of the ECE region since the previous *Survey*[71] was finalized in mid-March 1999. Real GDP in western Europe is still forecast to increase by some 2 per cent in 1999, which contrasts with a significantly stronger annual growth rate of more than 3 per cent expected for the United States (table 2.2.2).

These forecasts embody the assumption that forces for growth will strengthen in western Europe but weaken in the United States in the second half of this year. Such tendencies, however, are not yet discernible in the currently available short-term economic indicators for the first four or five months of 1999.

In Germany, the largest west European economy, business confidence (as measured by the IFO business climate index) rose again in May following a fall in April. But overall confidence has fallen to low levels since the Russian crisis of last year, and the May figure is only slightly higher than the recent trough in February.

There are, nevertheless, some factors which could lead to a pick-up in economic growth in western Europe later on in the year. In the euro area, the monetary impulses which are now in the pipeline will stimulate domestic demand, although the effects of lower short-term interest rates could be partly offset by a rise in long-term interest rates. In addition, the depreciation of the euro has improved price competitiveness and this should strengthen the growth of net exports. Fiscal policy, in the aggregate, will be neutral in its effect on economic activity in 1999. In the United Kingdom, the resolute easing of monetary policy and the slightly expansionary stance of fiscal policy can be expected to offset the restraining effects on exports of the strong pound.

[71] UN/ECE, *Economic Survey of Europe, 1999 No. 1*, pp. 35-37.

TABLE 2.2.2

Real GDP in the developed market economies, 1996-1999
(Percentage change over previous year)

	1996	1997	1998	1999[a]
Western Europe	1.9	2.7	2.6	1.8
4 major countries	1.2	2.1	2.2	1.5
France[b]	1.1	2.0	3.2	2.3
Germany[b]	0.8	1.8	2.3	1.5
Italy	0.9	1.5	1.4	1.5
United Kingdom[b]	2.6	3.5	2.1	0.7
17 smaller countries	3.1	3.9	3.4	2.4
Austria	2.0	2.5	3.3	2.2
Belgium[b]	0.9	3.2	2.9	2.0
Cyprus	2.0	2.5	5.0	4.0
Denmark[b]	3.3	3.1	2.9	1.6
Finland[b]	4.1	5.5	4.7	3.0
Greece	2.4	3.2	3.5	3.0
Iceland	5.6	5.4	5.0	5.0
Ireland	7.4	9.8	8.5	6.5
Israel	4.7	2.7	2.0	1.7
Luxembourg	3.0	4.7	5.7	3.3
Malta	3.8	4.4	7.6	7.5
Netherlands	3.1	3.6	3.7	2.2
Norway[b]	5.5	3.4	2.1	1.0
Portugal	3.2	3.7	3.9	3.0
Spain	2.4	3.5	3.8	3.3
Sweden	1.3	1.8	2.9	2.0
Switzerland	0.3	1.7	2.1	1.3
Turkey	7.0	7.5	2.8	1.4
North America	3.3	3.9	3.8	3.4
Canada[b]	1.7	4.0	3.1	2.8
United States	3.4	3.9	3.9	3.5
Total above	2.6	3.3	3.2	2.6
Japan	5.0	1.4	-2.8	-1.4
Total above, *including Japan*	3.0	3.0	2.3	2.0
Memorandum items:				
European Union	1.6	2.5	2.6	1.9
Euro area	1.4	2.3	2.7	2.1

Source: National statistics and national economic reports.

Note: All aggregates exclude Israel. Growth rates of regional aggregates have been calculated as weighted averages of growth rates in individual countries. Weights were derived from 1991 GDP data converted from national currency units into dollars using purchasing power parities.

[a] Forecasts.

[b] Data corresponds to new SNA93 or ESA95 definitions.

Support for this scenario is also provided by the increasing evidence that the economic situation in the Asian emerging markets most directly affected by the financial crisis of 1997 has been improving recently. This is reflected in a significant upward revision of forecasts for GDP growth in the Republic of Korea in 1999. Stabilization and growth in Asia should, of course, stimulate western European exports to the region.

There remain, however, considerable downside risks which have been already identified.[72] These include the weakness of the Japanese economy, notably the fragility of its financial sector, the vulnerability of emerging markets to new financial shocks, the sustainability of the rise in the United States current account deficit and of the level of equity prices in many industrialized countries, notably the United States, which appear to be quite excessive on the basis of historical valuation criteria.[73] There is also lingering uncertainty about the state of the Chinese economy and the adverse regional effects of a possible devaluation of the renminbi, which could put into question the sustainability of the nascent recovery in other Asian economies.

In the United States, the continued strength of the economy and the absence of any significant inflationary pressures remain striking. Private household spending has been fuelled by expectations of further increases in already high asset prices, which is not sustainable. Moreover, the pool of available labour resources has now been virtually exhausted and, at this very mature stage of the business cycle, productivity gains will be increasingly less able to offset labour cost pressures, which must inevitably mount if the economy remains as strong as it is at present. Overall, the existence of significant domestic and external imbalances calls for a pre-emptive tightening of monetary policy to avoid a hard landing.

2.3 Central and eastern Europe and the CIS

During the early months of 1999, economic performance deteriorated in many of the ECE transition economies. The most visible evidence of this was the weakening of output and export performance which was noticeable throughout the whole region. The weakening of economic activity had a negative impact on the situation in the labour markets causing further increases in unemployment. While inflation rates continued to fall in most transition economies, in some CIS countries there were painful setbacks, fuelled in most cases by depreciating exchange rates. The international trade of the transition economies was in general weak and in some areas (in particular Russian imports and intra-CIS trade in general) there were especially large falls: the Russian crisis practically eliminated some of the trade flows in this region. The current account balances of most transition economies have also deteriorated suggesting that balance of payments constraints may become a serious bottleneck for some of the countries in the region.

The worsening of the economic situation in the transition economies – which in fact started in mid-1998 – was triggered by a series of external shocks, the latest being the Kosovo conflict. Their aggregate and

[72] Ibid.

[73] BIS, *69th Annual Report* (Basle), June 1999, pp. 83-88.

multiplier effects have resulted in an unexpectedly large and widespread negative impact on the ECE transition economies: thus, for example, the rate of growth of aggregate GDP in eastern Europe in 1998 was the lowest since 1993 (table 2.3.1 and appendix table B.1).[74] In addition to the diverse and wide-ranging repercussions of these shocks, there was also a deterioration in a number of various aspects of domestic economic performance. These developments highlight once again the general fragility of most of the transition economies and their vulnerability to external disturbances, an issue that has been repeatedly emphasized in previous issues of this *Survey*. They underline once again the need for a cautious and consistent policy approach in engineering and maintaining a balanced and sustained rate of growth during the transition.

(i) Output and demand

The general weakening of economic activity in the ECE transition economies which became noticeable in the closing months of 1998 continued in the first quarter of 1999, and was especially marked in certain regions and in certain sectors of economic activity. Although at the moment of writing this *Survey* quarterly GDP figures were not available for many of the countries, other preliminary statistics indicate a substantial deterioration in output performance. This was particularly the case in manufacturing: in the first quarter of 1999 industrial output was declining, year-on-year, in 17 of the 27 ECE transition economies (table 2.3.3). Aggregate industrial output declined in all the major subregions in the first quarter: eastern Europe, the Baltic states and the CIS. In eastern Europe the fall in total industrial output was the first since 1993 (appendix table B.4).

Basically the same external factors that caused the setback in the ECE transition economies in the second half of 1998 continued to further worsen their output performance in the opening months of 1999: weak global demand (caused by the global financial turmoil that followed the Asian crisis), the large fall in Russian imports in the aftermath of the August financial collapse and the weakening of import demand in western Europe. As argued in more detail in chapter 1, the outbreak of the Kosovo conflict and the escalation of war-related damage was another major external shock for many of the ECE transition economies, especially those in south-east Europe.

Among the *central European transition economies*, in the first quarter of 1999 growth remained relatively strong only in Hungary. Although the growth of industrial output (with manufacturing the main engine of recovery) decelerated somewhat (having grown at double-digit rates in 1997 and 1998 – table 2.3.3), it was still sufficient to preserve a healthy rate of recovery in the economy as a whole. The growth of domestic demand also slowed a little from the very high rates in 1998 (table 2.3.4) but it still provided an important support to economic activity. The major source of policy concern in Hungary was the state of public finances with the budget deficit somewhat larger than forecast, largely as a result of the effects of the Kosovo conflict.

Sluggish output, and in some cases recessionary trends, prevailed in the rest of the central European transition economies. Poland has been experiencing its worst economic performance since 1994: industrial output in the first quarter of 1999 fell below its level in the same period of 1998 (table 2.3.3) and was the second consecutive quarter of year-on-year falls in industrial production. Preliminary estimates suggest that quarterly GDP only grew marginally in the first quarter, and even if it picks up later in the year it is highly unlikely that Polish growth performance in 1999 will match the record of the last five years. In the Czech Republic, which has been in recession since the beginning of 1998, both GDP and industrial output fell sharply in the first quarter of 1999 (table 2.3.3). Although a turnaround is widely expected in the course of 1999,[75] recession will probably prevail for the year as a whole.

Since taking office (after the September 1998 parliamentary elections), the new Slovak government has been implementing a major fiscal adjustment aimed at restoring macroeconomic equilibrium (in the first place, by reducing the large current account deficit – table 2.3.2).[76] Overall, this has resulted in a dampening of economic growth: in the first quarter of 1999 quarterly GDP increased by a meagre 1.8 per cent year-on-year (table 2.3.3), following a 0.5 per cent increase in the fourth quarter of 1998.

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[74] Starting with this issue of the *Survey*, the UN/ECE secretariat has introduced new weights for computing regional aggregates for the ECE transition economies on the basis of the results of the 1996 European Comparison Programme. In some cases this has resulted in minor deviations from previously reported numbers for some regional groupings.

[75] As a first positive sign, retail sales recovered by an impressive 9.3 per cent, year-on-year, in March, following 14 months of decline; this led to positive growth of the quarterly volume of retail sales during the first quarter of 1999 (table 2.3.4). However, it remains to be seen whether this change actually marks a reversal in domestic demand (in April, the year-on-year rate of growth of retail sales amounted to 1.8 per cent).

[76] The latest set of measures proposed by the government in May include, *inter alia*, increases in the import surcharge and in VAT as well as the introduction of some new taxes; at the same time they envisage cuts in public expenditure, in particular, on public administration and social benefits. Government regulated prices (of electricity, heating and telecommunication services) will also be raised. *SITA* (Slovenska Tlacova Agentura) as quoted in *Reuters Business Briefing*, 1 June 1999.

TABLE 2.3.1

Basic economic indicators for the ECE transition economies, 1996-1999

(Rates of change and shares, per cent)

	GDP (growth rates)					Industrial output (growth rates)			Inflation (per cent change, Dec./Dec.)			Unemployment rate (end of period, per cent)		
			1998											
	1996	1997	Ex-ante official forecast	Actual outcome	1999 official forecast[a]	1996	1997	1998	1996	1997	1998	1996	1997	1998
Eastern Europe	3.8	2.3	4.1	1.5	2.2	5.2	4.9	1.4	..	..	..	11.7	11.9	12.6
Albania	9.1	-7.0	10	8*	5-6	13.6	-5.6	10.0	17.4	42.0	7.8	12.3	14.9	17.6
Bosnia and Herzegovina[b]	..	..	..	..	18	87.6	35.7	23.8	3.2	12.2	2.2	..	39*	38.5
Bulgaria	-10.1	-6.9	3.0	3.5	2	3.1[c]	-9.6	-9.4	311.1	578.7	0.9	12.5	13.7	12.2
Croatia	6.0	6.5	7.5	2.7	1.5-2	3.1	6.8	3.7	3.5	4.0	5.6	15.9	17.6	18.6
Czech Republic	3.9	1.0	1.4-2.6	-2.7	-0.8	2.0	4.5	1.6	8.7	9.9	6.7	3.5	5.2	7.5
Hungary	1.3	4.6	4.0	5.1	4-5	3.4	11.1	12.6	20.0	18.4	10.4	10.5	10.4	9.1
Poland	6.0	6.9	5.6-5.8	4.8	4-4.5	8.3	11.5	4.7	18.7	13.2	8.5	13.2	10.3	10.4
Romania	3.9	-6.9	–	-7.3	-2	6.3	-7.2	-17.0	56.8	151.7	40.7	6.6	8.8	10.3
Slovakia	6.6	6.5	5.0	4.4	3	2.5	1.7	5.0	5.5	6.5	5.5	12.8	12.5	15.6
Slovenia	3.5	4.6	3.5-4	3.9	4	1.0	1.0	3.7	9.0	8.8	6.6	14.4	14.8	14.6
The former Yugoslav Republic of Macedonia	0.8	1.5	5.0	2.9	-8	3.2	1.6	4.5	0.3	4.5	-1.0	39.8	42.5	..
Yugoslavia[d]	5.9	7.4	10.0	2.6	..	7.5	9.5	3.6	59.9	10.3	45.7	26.1	25.6	27.2
Baltic states	4.1	8.4	6.3	4.4	3	4.8	8.4	4.2	..	..	..	6.4	6.3	7.3
Estonia	3.9	10.6	5.5-6	4.0	2.0-2.5	3.5	15.2	0.5	15.0	12.3	6.8	5.6	4.6	5.1
Latvia	3.3	8.6	5-6	3.6	2	5.5	13.8	2.0	13.2	7.0	2.8	7.2	6.7	9.2
Lithuania	4.7	7.3	7.0	5.1	4	5.0	3.3	7.0	13.1	8.5	2.4	6.2	6.7	6.9
CIS	-3.4	1.0	1.4	-2.8	0.1	-3.4	2.6	-3.1	..	..	..	6.6	7.6	9.0
Armenia	5.9	3.1	5-6	7.2	4	1.4	0.9	-2.5	5.6	21.8	-1.2	9.7	11.0	8.9
Azerbaijan	1.3	5.8	..	10.0	6	-6.7	0.3	2.2	6.8	0.3	-7.6	1.1	1.3	1.4
Belarus	2.8	11.4	7-8	8.3	4-6	3.5	18.8	11.0	39.1	63.4	181.6	4.0	2.8	2.3
Georgia	11.0	11.3	11-13	2.9	4	6.8	8.2	-2.7	13.6	7.3	10.8	3.2	8.0	4.2
Kazakhstan	0.5	1.7	3.5	-2.5	-1.5	0.3	4.0	-2.1	28.6	11.3	1.9	4.1	3.9	3.7
Kyrgyzstan	7.1	9.9	3.6	1.8	2.8	8.8	50.4	4.6	35.0	14.7	18.3	4.5	3.1	3.1
Republic of Moldova[e]	-7.8	1.6	3-3.5	-8.6	-5	-6.5	–	-11.0	15.1	11.1	18.2	1.5	1.7	1.9
Russian Federation	-3.5	0.8	0-0.5	-4.6	(-1-0)	-4.0	2.0	-5.2	21.8	11.0	84.5	10.0	11.2	13.3
Tajikistan	-16.7	1.7	..	5.3	3	-23.9	-2.0	8.1	40.6	159.9	2.7	2.4	2.8	2.9
Turkmenistan	6.7	-11.4	..	5.0	10	19.7	-32.3	0.2	445.8	21.5	19.8	..	..	..
Ukraine	-10.0	-3.2	0.5	-1.7	-1	-5.1	-0.3	-1.5	39.7	10.1	20.0	1.5	2.8	4.3
Uzbekistan	1.7	5.2	6.0	4.4	4.4	2.6	4.1	5.8	80.0	27.5	..	0.3	0.3	0.4
Total above	-0.8	1.6	2.5	-1.1	1.0	0.3	3.7	-1.0	..	..	..	..	..	..
Memorandum items:														
CETE-5	4.7	5.0	4.5	3.1	3.1	5.0	8.3	5.1	..	..	..	11.2	9.8	10.2
SETE-7	1.9	-3.9	3.1	-2.6	-0.6	5.5	-3.9	-9.3	..	..	..	12.5	14.3	15.4
Former GDR	3.2	1.7	..	2.0	..	3.3	5.8	7.5	..	..	..	15.9	19.4	17.4

Source: National statistics; CIS Statistical Committee; direct communications from national statistical offices to UN/ECE secretariat (IMF and World Bank data for Albania).

Note: Aggregates are UN/ECE secretariat calculations, using PPPs obtained from the 1996 European Comparison Programme. Output measures are in real terms (constant prices). Forecasts are those of national conjunctural institutes or government forecasts associated with the central budget formulation. Industrial output refers to gross output, not the contribution of industry to GDP. Inflation refers to changes in the consumer price index except for Croatia and The former Yugoslav Republic of Macedonia for which the retail price index is used. Unemployment generally refers to registered unemployment at the end of the period (with the exception of the Russian Federation, where it is the Goskomstat estimate of the ILO definition and Estonia where it refers to job seekers). Aggregates shown are: *Eastern Europe* (the 12 countries below that line), with sub-aggregates *CETE-5* (central European transition economies: Czech Republic, Hungary, Poland, Slovakia, Slovenia) and *SETE-7* (south European transition economies: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, The former Yugoslav Republic of Macedonia and Yugoslavia); *Baltic states* (Estonia, Latvia, Lithuania); *CIS* (12 member countries of the Commonwealth of Independent States); and *total transition economies.*

[a] The 1999 regional aggregates exclude Bosnia and Herzegovina and Yugoslavia.

[b] Data reported by the Statistical Office of the Federation; these exclude the area of Republika Srpska.

[c] Bulgarian industrial output indices were recently recalculated according to a new methodology and the old series reportedly have been revised back to 1991. Here and in appendix table B.4 industrial output now includes the gross output of all activities of industrial enterprises (and not just the gross output of "pure" industry, as previously published). The figure for industrial output growth in 1996 according to the new methodology (3.1 per cent) differs significantly from the figure for the rate of change of gross industrial output (-9.1 per cent) reported in the national accounts for the same year.

[d] Gross material product instead of GDP.

[e] Excluding Transdniestria.

TABLE 2.3.2

International trade and external balances of the ECE transition economies, 1996-1998

(Rates of change and shares, per cent)

	Merchandise exports in dollars (growth rates)			Merchandise imports in dollars (growth rates)			Trade balances (per cent of GDP)			Current account (per cent of GDP)		
	1996	1997	1998	1996	1997	1998	1996	1997	1998	1996	1997	1998
Eastern Europe [a]	3.0	6.4	9.4	14.5	6.5	8.9	-9.5	-10.4	-9.9	-3.7	-4.2	-4.6
Albania	5.3	-33.5	46.2	40.5	-32.1	28.2	-26.0	-21.1	-20.2	-4.0	-12.0	-6.4
Bosnia and Herzegovina [b]	141.6	232.1	134.5	129.9	29.2	30.2	-41.3	-40.8	-38.4	-47.0	-44.0	-38.5*
Bulgaria	-8.5	1.0	-13.1	-10.0	-2.8	1.3	-1.9	0.1	-5.7	0.2	4.2	-2.1
Croatia	-2.6	-7.6	8.9	3.7	16.9	-7.9	-16.5	-24.5	-18.0	-4.3	-12.1	-7.3
Czech Republic	4.3	2.7	15.7	10.5	-1.3	4.6	-9.9	-9.2	-4.5	-7.4	-6.2	-1.9
Hungary	2.2	21.7	20.4	4.8	17.1	21.0	-5.4	-4.7	-5.7	-3.7	-2.1	-4.8
Poland [c]	6.8	5.4	2.6	27.9	13.9	10.9	-8.9	-11.6	-11.9	-0.9	-3.0	-4.3
Romania	2.2	4.3	-1.6	11.3	-1.4	4.8	-9.5	-8.2	-9.2	-7.3	-6.7	-7.9
Slovakia	2.8	0.2	10.7	26.6	-8.0	11.0	-12.2	-10.5	-11.3	-11.2	-6.9	-10.1
Slovenia	-0.1	0.7	8.1	-0.7	-0.6	7.8	-5.9	-5.5	-5.4	0.2	0.2	–
The former Yugoslav Republic of Macedonia	-4.7	2.8	11.0	-5.4	7.8	9.0	-10.8	-15.5	-17.0	-6.5	-7.5	-8.2
Yugoslavia	20.6	45.0	6.8	54.3	17.3	0.5	-14.2	-10.9	-7.6	-5.1	-6.7	-4.6*
Baltic states	17.6	23.0	3.3	26.3	26.7	7.3	-18.6	-21.9	-22.5	-8.2	-9.5	-11.0
Estonia	13.2	40.9	9.7	27.2	37.5	7.1	-26.4	-32.7	-29.7	-9.7	-12.1	-8.6
Latvia	10.7	15.9	8.4	27.6	17.4	17.1	-17.1	-18.6	-21.5	-5.4	-6.1	-11.1
Lithuania	24.0	15.1	-3.8	24.9	23.8	2.7	-15.3	-18.6	-19.5	-9.2	-10.2	-12.1
CIS	10.2	1.8	-14.3	5.9	18.7	-12.6	7.0	5.4	6.5	1.2	-0.4	-1.3
Armenia [b]	55.4	-12.2	3.0	67.1	4.5	13.8	-25.8	-28.1	-28.4	-26.8	-27.9	-24.5*
Azerbaijan	-3.1	18.1	-20.6	41.4	-28.6	49.0	-8.8	-1.0	-8.3	-29.2	-23.7	-33.2
Belarus	6.3	1.8	-1.1	25.6	21.2	4.5	-3.5	-7.1	-8.2	-3.8	-6.0	-7.1
Georgia	23.3	45.1	-12.7	78.7	44.1	13.3	-8.2	-10.0	-12.0	-6.6	-7.0	-10.2*
Kazakhstan	15.7	28.4	-9.0	12.3	51.9	11.8	6.9	7.0	4.4	-3.6	-4.1	-7.6*
Kyrgyzstan	-20.0	154.5	1.1	107.6	-21.9	43.4	-13.4	0.6	-6.6	-23.7	-7.8	-20.8*
Republic of Moldova	-9.7	6.0	-28.8	54.5	35.0	5.8	-9.9	-15.6	-25.0	-11.1	-13.9	-20.3
Russian Federation	8.7	-1.2	-15.7	-4.9	23.3	-16.7	8.8	6.7	9.2	2.8	0.9	0.9
Tajikistan	-11.6	7.7	-16.7	-13.9	-6.2	-1.1	14.6	22.2	9.8	-7.0	-6.5	-17.1*
Turkmenistan	-42.1	-45.5	-32.7	49.3	-42.5	-11.3	-17.3	-8.6	-9.8	2.0	-22.2	-19.0*
Ukraine	13.4	23.6	-5.1	17.1	12.7	-8.9	1.3	2.8	3.9	-2.7	-2.7	-2.0*
Uzbekistan	94.0	-4.4	-20.6	96.0	1.9	-28.9	0.9	-0.5	1.4	-7.1	-4.0	-1.4*
Total above [a]	6.7	4.9	-1.1	12.7	10.6	3.1	-0.1	-1.4	-2.5	-0.9	-2.0	-3.2
Memorandum items:												
CETE-5	4.0	6.8	11.5	15.6	6.7	11.0	-8.6	-9.5	-9.1	-3.3	-3.5	-4.1
SETE-7 [a]	-0.5	4.7	1.0	10.9	6.0	2.1	-11.2	-11.8	-10.5	-5.3	-6.9	-6.8

Source: National statistics; CIS Statistical Committee and direct communications from national statistical offices to UN/ECE secretariat; UN/ECE secretariat computations.

Note: Foreign trade growth is measured in current dollar values. Trade and current account balances are related to GDP at current prices, converted from national currencies at current dollar exchange rates. Trade values include the "new trade" among the successor states of former Czechoslovakia and the former SFR of Yugoslavia, but not intra-CIS trade. Current price GDP values are in some cases estimated from reported real growth rates and consumer price indices. On regional aggregates, see the note to table 2.3.1.

[a] Totals excluding Bosnia and Herzegovina and Yugoslavia.

[b] Current account excludes official transfers.

[c] Trade balance for 1998 is derived from exports and imports based on the new methodology.

Nevertheless, private domestic demand remained relatively strong (table 2.3.4), although it can be expected to decelerate in the course of the year. During the first quarter of the year economic activity was also weak in Slovenia. Quarterly industrial output declined in this period (table 2.3.3), mainly because of low orders in the manufacturing sector.[77] As noted in chapter 1, as a result of the Kosovo conflict the tourist sector is expecting a sharp decline in revenues which is likely to have a negative impact on overall economic performance.

The economic situation in the *south-east European transition economies* was seriously destabilized by the conflict in Yugoslavia. As already discussed in more detail in chapter 1, the economies of most of these countries were already in a precarious state even before the outbreak of the conflict. The huge losses suffered by all of the south-east European transition economies

[77] During the first four months of 1999, output was declining in 12 out of 14 manufacturing sectors. Institute of Macroeconomic Analysis and Development, *Slovenian Economic Mirror* (Ljubljana), May 1999.

TABLE 2.3.3

GDP and industrial output in the ECE transition economies, 1998-1999

(Percentage change over the same period of the preceding year)

	GDP					Industrial output				
	1998				1999	1998				1999
	Jan.-Mar.	Jan.-Jun.	Jan.-Sept.	Jan.-Dec.	Jan.-Mar.	Jan.-Mar.	Jan.-Jun.	Jan.-Sept.	Jan.-Dec.	Jan.-Mar.
Eastern Europe	3.1	3.0	2.4	1.5	..	5.8	4.3	3.4	1.4	-4.0
Albania	..	..	..	8*	..	-11.7	1.8	11.6	10*	20.7
Bosnia and Herzegovina	..	..	..	..	..	14.2	21.1	25.4	23.8	11.7
Bulgaria	18.9	11.9	4.3	3.5	..	6.2	-0.7	-6.7	-9.4	-16.2
Croatia	3.5	3.7	3.9	2.7	..	6.4	5.8	6.8	3.7	-3.6
Czech Republic	-0.9	-1.7	-2.1	-2.7	-4.5	8.4	6.7	5.0	1.6	-9.1
Hungary	4.5	4.8	5.1	5.1	..	13.6	13.6	13.6	12.6	7.2
Poland	6.4	5.8	5.5	4.8	1.5	11.0	8.4	7.0	4.7	-2.6
Romania	-9.4	-5.2	-5.7	-7.3	..	-21.8	-19.0	-17.0	-17.0	-9.6
Slovakia	6.2	6.2	5.8	4.4	1.8	4.7	5.3	6.4	5.0	3.8
Slovenia	6.1	4.3	4.1	3.9	..	9.8	4.2	4.5	3.7	-3.0
The former Yugoslav Republic of Macedonia	..	..	..	2.9	..	8.3	9.6	7.9	4.5	-13.3
Yugoslavia	..	..	..	2.6	..	15.9	12.3	7.0	3.6	-15.0
Baltic states	8.7	8.4	6.3	4.4	..	11.3	9.6	7.6	4.2	-10.4
Estonia	9.8	7.9	5.8	4.0	-5.8	11.4	7.9	3.9	0.5	-11.5
Latvia	8.9	7.2	5.4	3.6	..	14.7	11.2	7.0	2.0	-12.5
Lithuania	8.1	9.3	7.0	5.1	..	9.8	9.8	9.5	7.0	-9.1
CIS	1.1	0.5	-1.4	-2.8	..	2.5	1.3	-1.9	-3.1	-1.4
Armenia	6.4	6.7	6.9	7.2	4.6	4.3	3.2	0.6	-2.5	-4.4
Azerbaijan	8.2	9.1	8.5	10.0	6.2	0.2	0.7	1.1	2.2	4.1
Belarus	13.0	12.5	10.0	8.3	1.3	14.6	13.5	10.8	11.0	4.1
Georgia	11.2	8.9	7.3	2.9	1.2	-3.2	0.8	-1.2	-2.7	-5.7
Kazakhstan	1.9	1.7	–	-2.5	-3.6	3.8	1.1	-1.2	-2.1	-4.1
Kyrgyzstan	11.5	5.0	1.4	1.8	0.3	52.1	23.5	9.7	4.6	-4.6
Republic of Moldova	-4.2	-4.7	-4.7	-8.6	..	3.4	2.3	-5.7	-11.0	-27.1
Russian Federation [a]	–	-0.9	-3.3	-4.6	-3.7	1.3	0.1	-3.9	-5.2	-2.0
Tajikistan	1.3	2.6	6.5	5.3	2.4	9.5	12.5	8.7	8.1	4.4
Turkmenistan	-8.0	3.0	4.4	5.0	13.0	-11.0	-5.0	2.0	0.2	15.0
Ukraine	-0.2	0.2	-0.5	-1.7	-4.8	1.7	0.7	-0.3	-1.5	-2.4
Uzbekistan	3.3	4.0	4.4	4.4	2.9	4.3	5.5	6.1	5.8	4.7
Total above	2.0	1.6	0.2	-1.1	..	4.1	2.8	0.6	-1.0	-2.8
Memorandum items:										
CETE-5	4.5	4.0	3.8	3.1	..	10.3	8.4	7.4	5.1	-2.1
SETE-7	-0.7	0.4	-1.1	-2.6	..	-7.1	-7.2	-7.9	-9.3	-10.5
Former GDR	3.6	1.7	1.7	2.0	..	..	..	..	7.5	..

Source: National statistics; CIS Statistical Committee and direct communications from national statistical offices to UN/ECE secretariat (IMF and World Bank data for Albania).

Note: Industrial output figures above are based on monthly statistical reporting. Because of differences in coverage, monthly cumulative figures for 1998 as a whole differ slightly from reported annual figures for some countries. For these countries reported annual figures have been used. On regional aggregates see the note to table 2.3.1.

[a] Reported quarterly GDP figures for Russia are volume indices of the gross output in industry, agriculture, construction, transport and retail trade which covers about 70 per cent of total output at basic prices.

as a result of the conflict have resulted in a critical setback for this group of countries which threatens to escalate into a major economic crisis for the whole region.

The economies of south-east Europe continue to encounter serious macroeconomic problems. Romania has been facing serious macroeconomic imbalances and has been in a state of a deep recession since 1997. Its most acute problem in 1999 is the servicing of its foreign debt, which will be impossible without substantial additional assistance from the international financial institutions. Indeed, during the first months of 1999 the Romanian authorities came up with an anti-crisis programme[78] and progress was made in negotiations with the IMF on a new standby credit. In turn, the World Bank approved in June a $325 million programme aimed at fostering the development of the private sector. However, during this period the leu came under heavy pressure and between December

[78] The new programme envisages a strengthening of financial and fiscal discipline, the rehabilitation of the banking system, and stepping up the pace of privatization and restructuring of industrial enterprises. *Romanian Business Journal*, No. 15 (Bucharest), 16-22 April 1999.

TABLE 2.3.4

Retail trade in the ECE transition economies, 1997-1999
(Percentage change over same period of previous year)

	1997	1998 Jan.-Mar.	1998 Jan.-Jun.	1998 Jan.-Sept.	1998 Jan.-Dec.	1999 Jan.-Mar.
Bulgaria	-39.3	6.3	8.8	5.9	5.1	-4.6
Croatia	14.9	2.4	3.2	1.7	-0.6	-7.1
Czech Republic	-2.0	-4.3	-5.8	-6.0	-6.6	1.7
Hungary	-2.1	7.3	8.7	9.8	10.6	3.8
Poland	6.8	13.2	14.3	14.3	12.9	10.8
Romania	-12.1	-3.0	6.2	5.6	4.1	4.6
Slovakia	4.6	7.3	9.6	9.1	8.2	6.6
Slovenia	5.4	3.2	–	1.4	1.9	-6.0
The former Yugoslav Republic of Macedonia	4.3	5.2	3.3	3.5	3.2	21.1
Yugoslavia	9.0	22.0	18.8	9.3	2.7	..
Estonia	8.0	1.0	–	-2.1	-4.6	5.5
Latvia	18.6	21.5	25.4	24.8	21.8	19.9
Lithuania	12.9	23.6	20.4	16.9	11.1	-3.2
Armenia	5.2	2.1	8.3	5.2	6.1	12.7
Azerbaijan	14.9	12.0	13.0	9.7	9.1	14.8
Belarus	17.9	44.0	41.0	39.0	21.0	-3.9
Georgia	27.5	20.1	15.1	13.2	11.7	-8.4
Kazakhstan	29.3	31.0	23.0	20.0	18.0	7.2
Kyrgyzstan	8.8	12.4	9.3	8.6	8.4	1.6
Republic of Moldova [a]	-3.5	-13.0	-10.0	-8.0	-13.0	-25.0
Russian Federation	2.3	-0.6	-1.1	-0.7	-4.4	-15.8
Tajikistan	9.0	-35.6	-26.3	-9.3	8.2	49.4
Turkmenistan	13.7	9.0	..	..	..	23.0
Ukraine	0.2	0.4	0.4	-3.1	-4.5	-8.5
Uzbekistan	12.6	17.1	12.1	13.1	14.0	12.9

Source: National statistics; CIS Statistical Committee and direct communications from national statistical offices to UN/ECE secretariat.

Note: Retail trade covers mainly goods in eastern Europe, the Baltic states and the Russian Federation (since 1998); goods and catering in other CIS countries. The coverage in 1997 and 1998, based on current reporting, may differ from the coverage in the annual statistics.

[a] Registered enterprises.

1998 and June 1999 it had lost almost half of its value vis-à-vis the dollar. This is likely to result in a renewed upsurge of inflation while private domestic demand (which was recovering in the first quarter of 1999 – table 2.3.4) is likely to be curbed yet again.

The preliminary and scanty data for output and demand in the first quarter of 1999 (tables 2.3.3 and 2.3.4) basically reflect the economic situation prior to the outbreak of the Kosovo conflict. As regards industrial output in the first quarter of the year, these data indicate a continuing sharp fall in Bulgaria and Romania and a reversal of the dynamics of industrial production in Croatia and The former Yugoslav Republic of Macedonia from positive to negative (which was rather dramatic in the latter case). In Albania and in Bosnia and Herzegovina, quarterly industrial output was reportedly growing in the first quarter of the year, but in both countries the weight of this sector in the economy is relatively small.

The *Baltic states* were among the worst affected by the Russian crisis. Indeed, the actual deterioration in output in the aftermath of the crisis has exceeded even the most pessimistic expectations. Economic activity began to weaken already in the second half of 1998 (in Estonia and Latvia industrial output was falling already in the third quarter of 1998) and became even more pronounced in the first quarter of 1999. In Estonia the preliminary estimates indicate that quarterly GDP fell by almost 6 per cent year-on-year (table 2.3.3), and recessionary trends were also observable in Latvia and Lithuania. In all three countries quarterly industrial output declined very steeply – in Estonia and Latvia at double-digit rates (table 2.3.3).

At present the *Russian economy* is in a rather precarious state after the major financial collapse that occurred in 1998. The crisis culminated in August, when the persistent loss of investor confidence led to a massive outflow of capital from Russia, to the collapse of the exchange rate regime, and default on domestic public debt.[79] After the Bank of Russia allowed the rouble to float in August 1998, its exchange rate fell sharply from some 6.2 roubles per dollar to 16.1 by the end of September. Although the rate of depreciation slowed thereafter, the nominal exchange rate was nearly 21 roubles per dollar at the end of 1998 and around 24.5 roubles per dollar in mid-June 1999.

Since the August financial collapse, Russian economic performance has been mixed. In the second half of the year, and especially in the fourth quarter, domestic demand started to weaken significantly as real incomes fell sharply as a result of the upsurge in inflation which followed the collapse of the currency. At the same time, some local producers apparently benefited from the devaluation: exporters gained in competitiveness while some domestic sales picked up thanks to devaluation-induced import substitution.[80] The increase in the price of oil (a major Russian export product) since the beginning of 1999 has also had a favourable effect on Russian economic performance. The combination of these factors produced a deceleration in the rate of decline of industrial output already in the fourth quarter of 1998. In the first quarter of 1999 this decline was arrested and in March-April modest year-on-year growth of monthly industrial output resumed (although the rate of growth of quarterly industrial output remained negative – table 2.3.3). Nevertheless, overall economic activity remained weak with GDP declining by 3.7 per cent in the first quarter of 1999 (table 2.3.3).

[79] For details see UN/ECE, *Economic Survey of Europe, 1998 No. 3*, pp. 31-41.

[80] However, as discussed later, import substitution was selective due to the generally low supply responsiveness of local producers and the subsequent adjustments in domestic prices.

Private domestic demand in Russia remained extremely subdued in the first months of 1999: the quarterly volume of retail trade in the first quarter fell by almost 16 per cent (table 2.3.4). The main factor behind this development was the considerable erosion of real incomes after the August financial crash.[81] With no signs of reversal, the crisis is likely to have a long-lasting negative impact on the level of real incomes in Russia.

The Russian crisis caused a considerable deterioration in the economic performance of most of the *CIS countries.* On average, economic activity in the CIS continued to weaken in the first quarter of 1999: in all countries except Turkmenistan, rates of GDP growth in the first quarter were lower than the annual rates in 1998 (table 2.3.3). In addition to Russia, aggregate output also declined in the first quarter in Kazakhstan, Ukraine and most probably in the Republic of Moldova as well. Poor export performance, and in particular, an abrupt fall in the intra-CIS exports of many CIS countries (of which Russia accounts for a significant share) appears to have been one of the main factors behind this negative outcome (table 2.3.8). Apart from the direct impact of depressed Russian import demand, output and exports in many CIS countries were hit by the continuing weakness of some commodity prices which in turn lowered their export revenues.

Although earlier forecasts did suggest a continuing recession in Ukraine, the actual downturn in the first months of 1999 (quarterly GDP declined year-on-year by 4.8 per cent – table 2.3.3) was unexpectedly strong. Ukraine's exports were strongly affected both by the negative external factors mentioned above and its chronic failure to diversify its export markets. The tight monetary policy maintained by Ukraine's central bank since mid-1998 in support of the hryvna (which despite the September devaluation continued to be under pressure) was another factor depressing domestic economic activity.[82] For a while there was a serious risk that Ukraine would default on its foreign debt which would have had catastrophic consequences for the country's economic prospects, which currently are not very bright anyway. However, the May decision by the IMF to increase Ukraine's current three-year Extended Fund Facility by some $366 million has provided vital balance of payments support and will alleviate the current payments problem.

Kazakhstan, another large CIS economy, has also been in serious economic difficulty in early 1999. The tenge (as well as other CIS currencies) had been under strong pressure ever since the collapse of the rouble in August 1998. While in the aftermath of the rouble devaluation other countries chose to allow their currencies to depreciate in parallel (in order to maintain their competitive position vis-à-vis Russia), the Kazakh authorities tried to prevent a major devaluation. The central bank was therefore forced to intervene repeatedly on the foreign exchange market in support of the tenge but, faced with a significant loss of reserves, the bank was forced to abandon its interventions in April and the tenge was allowed to float freely. Within two months, the national currency lost some 50 per cent of its value vis-à-vis the dollar.[83] The size of this depreciation indicates the extent to which the tenge was overvalued in the months preceding the collapse of the exchange rate and the negative effect it was likely to have been having on economic activity. Indeed both GDP and industrial output had fallen significantly in the first quarter of 1999 (by 3.6 and 4.1 per cent, respectively – table 2.3.3).

In the first months of 1999 there was a noticeable recovery of economic activity in Turkmenistan (both in terms of GDP and of industrial output – table 2.3.3).[84] The main factors that contributed to this development were the resumption of gas deliveries to Ukraine and other CIS countries and the increased extraction and export of oil.[85] However, the high rates of growth in early 1999 largely reflect the return to previous output levels and are most likely to be a one-time phenomenon.

The economic situation in most of the other CIS countries remains difficult despite positive rates of GDP growth in some cases. The weakening of economic activity in this region is highlighted by the poor performance of industry in the first quarter of 1999: industrial production was growing in only five of the 12 CIS states (table 2.3.3). Many of them (Armenia, Azerbaijan, Georgia, Kyrgyzstan and the Republic of Moldova, among others) face serious balance of payments problems and rely heavily on external official assistance; meeting IMF conditionality will be crucial for maintaining an uninterrupted flow of finance and preventing the emergence of payments crises.

(ii) Inflation

Rates of inflation continued to fall in most transition economies in early 1999 (table 2.3.5).[86] As in

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[81] According to Goskomstat estimates, average real wages (due) in April 1999 were 39 per cent lower than their level in April 1998. Russian Federation Goskomstat, *Sotsial'no-ekonomicheskoe polozhenie Rossii* (Moscow), January-April 1999, p. 261.

[82] In the second quarter the central bank started to reduce gradually its refinancing rate, but real interest rates nevertheless remained highly positive.

[83] Before allowing the tenge to float on 5 April, it traded at 88.3 to the dollar; towards end May the exchange rate had fallen to 131 to the dollar. *RFE/RL*, "Newsline", Part I, 28 May 1999.

[84] At the beginning of 1999, after a break of almost two years, Turkmenistan resumed publication of official statistics on current economic performance.

[85] For details see subsection (iv) below.

[86] The official statistical data in this report refer to January-April 1999; however, other information, mainly from national and international press, cover the period to mid-June.

TABLE 2.3.5

Consumer prices in the transition economies, 1997-1999
(Percentage change)

	Annual average, all items		December over previous December		April over previous December		April over previous April	
	1997	1998	1997	1998	1998	1999	1998	1999
Albania	33.1	20.3	42.0	7.8	8.3	–	28.0	-0.4
Bosnia and Herzegovina	11.8	4.9	12.2	2.2	3.6	0.5	8.5	-0.9
Bulgaria	1 082.6	22.2	578.7	0.9	3.7	-0.3	28.4	-3.0
Croatia [a]	3.7	5.9	4.0	5.6	3.3	1.4	6.1	3.6
Czech Republic	8.4	10.6	9.9	6.7	5.0	0.9	13.0	2.5
Hungary	18.4	14.2	18.4	10.4	7.2	6.2	15.9	9.4
Poland	15.1	11.7	13.2	8.5	6.2	4.1	13.5	6.3
Romania	154.9	59.3	151.7	40.7	19.9	18.2	59.9	38.8
Slovakia	6.2	6.7	6.5	5.5	3.2	4.7	7.2	7.0
Slovenia	8.4	7.9	8.8	6.6	4.0	2.0	9.1	4.6
The former Yugoslav Republic of Macedonia [a]	3.6	1.0	4.5	-1.0	-0.7	-2.9	2.9	-3.2
Yugoslavia	23.2	30.4	10.3	45.7	13.8	..	20.4	..
Estonia	11.1	10.6	12.3	6.8	5.3	2.2	12.5	3.7
Latvia	8.5	4.7	7.0	2.8	2.5	1.3	6.1	1.6
Lithuania	8.8	5.1	8.5	2.4	2.4	0.8	7.0	0.8
Armenia	13.8	8.7	21.8	-1.2	6.1	3.8	20.5	-3.4
Azerbaijan	3.6	-0.8	0.3	-7.6	2.8	-0.7	-1.3	-10.8
Belarus	63.9	73.2	63.4	181.6	14.9	59.6	45.7	291.3
Georgia	6.9	3.6	7.3	10.8	2.3	11.2	5.6	20.4
Kazakhstan	17.4	7.3	11.3	1.9	4.2	5.1	9.9	2.8
Kyrgyzstan	25.5	12.1	14.7	18.3	5.7	13.8	10.4	27.4
Republic of Moldova	11.8	7.7	11.1	18.2	2.3	9.8	8.0	26.8
Russian Federation	14.7	27.8	11.0	84.5	3.4	19.6	8.0	113.3
Tajikistan	85.4	43.1	159.9	2.7	5.7	14.4	103.4	11.2
Turkmenistan	83.7	16.8	21.5	19.8	11.6	13.1	18.7	21.5
Ukraine	15.9	10.6	10.1	20.0	3.0	5.9	8.7	23.4
Uzbekistan	73.2	..	27.5	..	..	..	..	..

Source: UN/ECE secretariat estimates, based on national statistics.

[a] Retail price index. For Croatia the food price index is from the cost of living index.

1998, the deceleration was widespread and rapid. In early 1999, however, the slowdown was mainly the result of a further weakening of domestic pressures while in 1998 external factors also played a role and probably the more important one. Given the intensified competition for export markets, the general weakness in import unit values for manufactured goods in dollar terms probably continued also in early 1999; however, international commodity prices (also in dollars) in April 1999 were nearly one fifth above their levels in December 1998, reflecting mainly the sharp recovery in crude oil prices.[87] Given the appreciation of the dollar vis-à-vis most currencies, including those of the transition economies, during the same period, the favourable downward effect of import prices on the overall inflation rate was in general less significant in early 1999 than in 1998. However, in many of these economies, this was largely offset by the further weakening of domestic demand, although the extent and reasons for it varied considerably among the various economies.

Among the *east European countries*, consumer price inflation in early 1999 accelerated only in Slovakia,[88] mainly because of numerous adjustments in utility prices which took effect at the start of the year as part of the new government's economic programme.[89] In fact, despite the koruna's sizeable depreciation after being left to float in October 1998, industrial producer prices remained more or less stable during January-April 1999 as export demand fell and the measures taken after the November elections to tighten domestic demand started to bite.[90] However, given the foreseen

[87] Crude oil prices, in dollars, rose by nearly 50 per cent during the January-April 1999 period after falling by some 40 per cent over the 12 months to December 1998. Hamburg Institute for Economic Research (HWWA), direct communication. Also see section 2.1 above.

[88] Inflation has probably accelerated also in Yugoslavia, but no data for 1999 were available at the time of writing this *Survey*.

[89] In January the CPI jumped by 3 percentage points reflecting an average 20 per cent increase in heating, drinking water, sewage and electricity prices.

[90] Although retail sales remained relatively strong in the first quarter (table 2.3.4), for the rest of the year private consumption is expected to weaken due to sharply rising unemployment and declining real wages.

increases in the floor rate of VAT (from 6 per cent to 10 per cent on 1 July), the reintroduction of an import surcharge (7 per cent on 1 June), further various large utility prices and rent increases (70 per cent on 1 July), the consumer price index is expected to climb further during the rest of 1999. The government expects the annual average inflation rate to reach 10 per cent in 1999, more than 3 percentage points above the 1998 rate.

In the Czech Republic, where the total output continues to decline and unemployment to soar, consumer price increases remained remarkably low, at a 0.2 per cent average monthly rate during the first four months of 1999, despite increases in regulated and fuel prices. In Hungary, inflation continued to fall faster than expected, amid signs of some slowdown in the rate of economic growth. The official target of 9 per cent (annual average) is likely to be achieved unless the rate of change in unit labour costs accelerates in the remaining months of 1999. In Poland too, the inflation rate fell further despite the usual New Year excise tax increases, higher petrol prices for consumers after February, and the weakness of the zloty at the beginning of the year. There are still some more administrative price increases to come in 1999[91] and the indirect effects of higher fuel prices are still to work their way through to the rest of the economy. Nevertheless, the official inflation target of 8 per cent is considered to be in reach, particularly if food prices remain weak and the recent pick-up in industrial productivity continues during the rest of the year. Consumer price inflation also fell significantly during early 1999 in Slovenia and Croatia mainly due to much weaker household expenditure.[92]

In Bulgaria, consumer prices were actually falling in the first months of 1999 reflecting the seriously depressed state of domestic demand. Weak consumer demand also led to near price stability in Albania and Bosnia and Herzegovina. In Romania, inflation decelerated but remained high in early 1999, partly reflecting the pressure on the leu and increases in public service prices and excise taxes. At the same time, real wages are declining and unemployment is rising sharply, but it remains to be seen whether during the rest of 1999 these factors counterbalance the effect of the ongoing depreciation of the currency. Disinflation continued for the sixth consecutive year in the Baltic states, mainly under the influence of the fixed exchange rate systems, although in Lithuania the collapse of private consumption was another factor behind the near zero inflation rate.

In contrast to eastern Europe and the Baltic states, inflation rates accelerated in most of the CIS countries after the Russian rouble crisis and the consequent large depreciations of other currencies in the region during the second half of 1998. However, given the collapse of real wages, rising joblessness and, consequently, a seriously depressed domestic demand, inflation rates have slowed down over the first four months of 1999 in some of these countries. In Russia, the monthly inflation rate fell from 8.5 per cent in January to 2.2 per cent in May, and the relative changes in most of the other CIS economies were similar. Inflation in early 1999 was very high in Belarus; following the depreciation of the tenge, it may also be expected that inflation will accelerate in the course of the year in Kazakhstan as well.

(iii) Unemployment

As a result of the general economic slowdown and the Russian crisis, unemployment started to increase in most transition economies in the second half of 1998. In some of them, where the external demand shock was amplified by deepening internal problems, there was an unexpectedly sharp upsurge in the rate of joblessness in the fourth quarter of the year. This unfavourable trend continued in the first months of 1999 and in March eight countries (Croatia, the Czech Republic, Latvia, Lithuania, Romania, Russia, Slovakia and Yugoslavia) reported their highest unemployment rates since the transition started in 1989. The total number of people registered as unemployed in the transition economies as a whole, reached 20 million people at the end of March (some 7.6 million in eastern Europe and the Baltic states and 12.4 million in the CIS countries), the highest level since records began in the early 1990s. In eastern Europe and the CIS the number of unemployed grew by some 14 and 22 per cent, respectively, in the 12 months to March 1998. The largest increase (25 per cent) during this period was in the Baltic states, reflecting in the main their greater trade and financial exposure to the Russian market which led to a greater and more extended deterioration in their output performance since mid-1998.

In eastern Europe, the already high rates of unemployment increased further in the first months of 1999 and in March averaged 14 per cent (only slightly below its previous peak in March 1994), with most countries falling within a range of between some 10 per cent (Hungary) and 19 per cent (Croatia) (table 2.3.6). In the 12 months to March 1998, unemployment rates declined slightly only in Bulgaria[93]

[91] In 1999, there were fewer administrative price increases than usual at the beginning of the year.

[92] Retail trade fell by 6 per cent year-on-year in Slovenia and 8.5 per cent in Croatia in the first quarter of 1999 (table 2.3.4).

[93] The unemployment rate in Bulgaria declined steadily during 1998, from a peak of 14.3 per cent in February, reflecting mainly a smaller than expected number of layoffs in the state sector (as the closure of the largest loss-making enterprises – envisaged by the programme agreed upon with the IMF – was delayed) and a larger number of job offers from small and medium businesses in the private sector. However, since October, unemployment started to rise again and April 1999 was the seventh consecutive month of increasing unemployment rate.

TABLE 2.3.6

Registered unemployment in the ECE transition economies, 1998-1999

(Per cent of labour force)

	1998		1999	
	March	December	March	April
Eastern Europe	12.3	12.6	14.0*	..
Albania	15.9	17.6	17.8	..
Bosnia and Herzegovina [a]	39.0	38.5	39.2	..
Bulgaria	13.7	12.2	13.2	13.3
Croatia	18.1	18.6	19.1	19.2
Czech Republic	5.5	7.5	8.4	8.2
Hungary	10.3	9.1	10.4	10.0
Poland	10.4	10.4	12.1	11.8
Romania	9.6	10.3	12.0	11.8
Slovakia	13.4	15.6	16.7	16.4
Slovenia	14.7	14.6	14.1	..
The former Yugoslav Republic of Macedonia	..	..	..	..
Yugoslavia [b]	26.5	27.2	28.8[c]	..
Baltic states	6.9	7.3	8.7	..
Estonia [d]	5.2	5.1	6.8*	..
Latvia	7.1	9.2	10.1	10.2
Lithuania	7.5	6.9	8.5	8.1
CIS	8.0	9.0	9.5	..
Armenia	9.6	8.9	10.4	..
Azerbaijan	1.4	1.4	1.4	..
Belarus	2.6	2.3	2.3	..
Georgia	5.4	4.2	4.3	..
Kazakhstan	4.0	3.7	3.6	..
Kyrgyzstan	3.7	3.1	3.1	..
Republic of Moldova	2.3	1.9	2.4	..
Russian Federation [e]	11.7	13.3	14.1	14.2
Tajikistan	2.9	2.9	3.1	..
Turkmenistan	..	..	..	..
Ukraine	3.3	4.3	4.0	..
Uzbekistan	0.4	0.4	0.6	..
Memorandum items:				
CETE-5	10.0	10.2	11.7	..
SETE-7	14.6	15.4	16.1	..
Russian Federation [f]	2.6	2.7	2.7	2.5

Source: National statistics and direct communications from national statistical offices to UN/ECE secretariat.

a The data reported by the statistical office of the Federation do not cover the area of Republika Srpska.

b Unemployment rates may be biased upwards as the reported employment data for the sector of agriculture cover only the public sector.

c February.

d Job seekers.

e Based on monthly Russian Federation Goskomstat estimates according to the ILO definition, i.e. including all persons not having employment but actively seeking and available for work. The figures have been seriously revised in line with the results of Goskomstat's February 1999 labour force survey.

f Registered unemployment.

and Slovenia,[94] whereas in Hungary strong output growth continued to generate a relatively strong demand for labour despite the continued fast pace of enterprise restructuring and, consequently, the rate of unemployment remained broadly unchanged. In the other countries of the region, the rate of unemployment increased markedly, in most cases by two to three percentage points, reflecting already weak economic situations which have been further aggravated by the ongoing Russian crisis, the Kosovo conflict, and intensified restructuring in some of them.

The outlook for the labour markets in eastern Europe in 1999 remains rather bleak. Among the central European transition economies a further small decline in unemployment can probably be expected only in Hungary (where the economy will probably continue to grow strongly in 1999) and, perhaps, in Slovenia. In the Czech Republic, the main causes of rising unemployment – economic recession and intensified restructuring in industry – are likely to continue in 1999, and unemployment is expected to exceed 10 per cent by the end of the year.[95] In Poland, despite the signs of a revival of economic activity since March, the budget forecast of an unemployment rate of 9.4 per cent by the end of 1999 may still be optimistic given the current rate of 11.8 per cent and the continuing programme of enterprise restructuring. Indeed, according to a recent forecast by the Ministry of Economics, unemployment could still be at 11.5 per cent at the end of 1999.[96] An increase is also likely during 1999 in Slovakia, where the March unemployment rate of 16.7 per cent, an all-time high, was already above the 16 per cent target set by the government for the end of the year, and the economy is expected to be going through a much delayed macroeconomic adjustment in the months to come. The prospects for the south-east European countries now look very poor given the considerable deterioration of the economic situation in most of them since the second half of 1998 and the likely consequences of the Kosovo conflict.

As a result of the continued weakening of economic activity, mainly due to the effect of the Russian crisis, unemployment has grown considerably in the *Baltic states*. In Estonia, the unemployment rate in March 1999 was some 7 per cent, while in Lithuania it reached a record 8.5 per cent. The largest increase was in Latvia, where the rate climbed to more than 10 per cent in March and continued to increase in April in contrast to the usual seasonal fall. Since the Russian crisis will probably result in a long-lasting downward shift in

[94] Slovenia, being a relatively sheltered transition economy, was not much affected by the Russian crisis. Among all the east European and Baltic countries, exports in the first quarter of 1999 compared to the same period in 1998 increased only in Hungary and did not fall in Slovenia.

[95] In the first quarter of 1999, compared with the same period in 1998, industrial output fell by more than 9 per cent. Although the output decline has been slowing recently, and retail sales are recovering, restructuring at the enterprise level is expected to continue and probably more vigorously. The 0.2 percentage point decline in the unemployment rate in April may not therefore be indicative of a reversal of the negative trend in the short run and can probably be explained by seasonal factors, such as inventory rebuilding after the Easter period.

[96] *Rzeczpospolita* (Warsaw), 6 April 1999.

Russian import demand, even if there is no further deterioration in output, the rates of unemployment in the Baltic states are unlikely to return to their pre-crisis levels (around 5-7 per cent) in the short run.[97]

In the *CIS countries,* official unemployment rates were still very low in March 1999, varying between 0.6 per cent (Uzbekistan) and 4.3 per cent (Georgia), the main exception being Armenia (more than 10 per cent). These low rates of registered unemployment, despite the steep decline in output,[98] reflect on the one hand the excess employment still prevailing in many, particularly large, enterprises, and on the other, the omission from the *registered* unemployment statistics of a large part of the jobless who are willing to work but, for various reasons, do not register. In Russia, for example, the registered rate is virtually meaningless. Indeed, during the 12 months to April 1999, open unemployment computed on the basis of the ILO definition increased from 11.7 to 14.2 per cent, exceeding the east European average, while the registered unemployment rate, which accounted for less than 20 per cent of the ILO measure, even declined slightly (box 2.3.1). Given the state of most of the other CIS economies, it would not be unreasonable to assume that in the first quarter of 1999 their actual unemployment rates increased further and have probably reached levels similar to or even worse than those in Russia.

(iv) Trade

(a) Eastern Europe and the Baltic states

In the first three months of 1999, there was a fall in the value of exports from eastern Europe and the Baltic economies (table 2.3.7). The virtual paralysis of the CIS market, the weakening of intraregional demand, the increasingly more competitive conditions in western import demand and the effect of lower international prices were the main factors behind the fall of some 4 per cent in the dollar value of their exports.

Although the value of total exports had grown by 9 per in 1998 as a whole,[99] in the course of the year the rate of increase was decelerating in many countries in the region and in the later months their value was in fact starting to fall in several of them. The three Baltic states, Bulgaria and Poland[100] suffered badly from the collapse of the Russian market, whereas in the other east European economies, especially in those that had made more progress in the reform process, the negative effects from Russia were limited, at least to begin with, as their trade flows were by then mainly oriented towards the west.

However, the continuing paralysis of the CIS market in the early months of 1999 has hampered the region's exports as business confidence in this market has diminished and few new trade contracts, including those on a state-to-state basis, have been concluded. The indirect effects, especially for trade among the east European and Baltic countries, were also considerable with many individual countries attempting to strengthen protectionist measures and support the substitution of locally produced goods for imports. As a result, in January-March 1999, exports to Russia and to the rest of the CIS plunged by 50-70 per cent (as compared with the same period of 1998), while trade among the east European and Baltic states shrank by 10-15 per cent in value. The mutual trade of the Baltic states also fell, by some 14 per cent, and trade within CEFTA was greatly affected by a marked slump in trade between the Czech Republic and Slovakia, which was down by 20-25 per cent in the first three months of the year.[101] Hungary's exports to CEFTA member countries also declined by 5 per cent, although Slovenia's increased by 6 per cent. However, Slovenia's exports to Croatia – its third most important export partner in 1998 – were down by 9 per cent in value.[102]

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[97] When discussing unemployment in these countries it should be kept in mind that the official figures for persons registered as unemployed may underestimate the actual number unemployed. Unemployment rates derived in 1998 from labour force surveys based on the ILO definition of unemployment stood at 9.6 per cent in Estonia (June), 13.8 per cent in Latvia (November) and 12.6 per cent in Lithuania (November), whereas the registered rates were 4.3, 8.8 and 6.5 per cent, respectively.

[98] For example in the extreme case of the Republic of Moldova, industrial production fell by 27 per cent (year-on-year) in the first quarter of 1999 while the registered unemployment rate in March 1999 was only 2.4 per cent, broadly the same as in March 1998.

[99] In volume terms, exports increased even more markedly, by 11-13 per cent, placing the east European and Baltic regions first among the world's regions in respect of trade growth. East European and Baltic export prices fell 2-4 per cent in 1998, partly reflecting a higher valuation of the dollar as compared with 1997, but also weak world demand, especially in commodity markets. Prices of internationally traded manufactured goods also declined in 1998, although by less than those of primary commodities. This was in fact a common feature of global trade; according to the WTO, the average prices of global merchandise exports declined by 5.5 per cent in 1998. WTO, "World trade growth slower in 1998 after unusually strong growth in 1997", *Press Release,* Press/128, 16 April 1999.

[100] A certain ambiguity about Polish export performance in 1998 has arisen recently. In the introduction to the Polish Central Statistical Office's bulletin (GUS, *External Trade, January-December 1998* (Warsaw), 1999), it is reported that the dollar value of exports increased by 9.6 per cent in 1998, while in fact it only grew by 2.6 per cent (see the above mentioned bulletin, p. 2, row b, in a panel of indices of value in United States dollars). The higher growth rate is based in fact on the comparison of two methodologically different data sets: as of 1 January 1998 a modification of the rules for customs declarations was introduced that allowed a much wider and probably more accurate statistical coverage of export transactions. Exports valued according to the new reporting rules amounted to $28,229 million, whereas based on the previous system, they came to only $26,422 million. In the absence of revised 1997 data, this difference in fact constitutes a serious break in the reported Polish foreign trade series.

[101] This collapse of trade between the Czech Republic and Slovakia was mainly due to a severe contraction of aggregate demand in the latter country, while a weakening of the Czech koruna probably affected price-sensitive imports from Slovakia.

[102] One of the major reasons for this was the fact that Slovenia's exports of electricity to Croatia have been cut since the end of July 1998; but also the kuna's depreciation (by 5.2 per cent in nominal terms) made Slovene goods less competitive on Croatia's market. Institute of Macroeconomic Analysis and Development, *Slovenian Economic Mirror* (Ljubljana), May 1999.

BOX 2.3.1

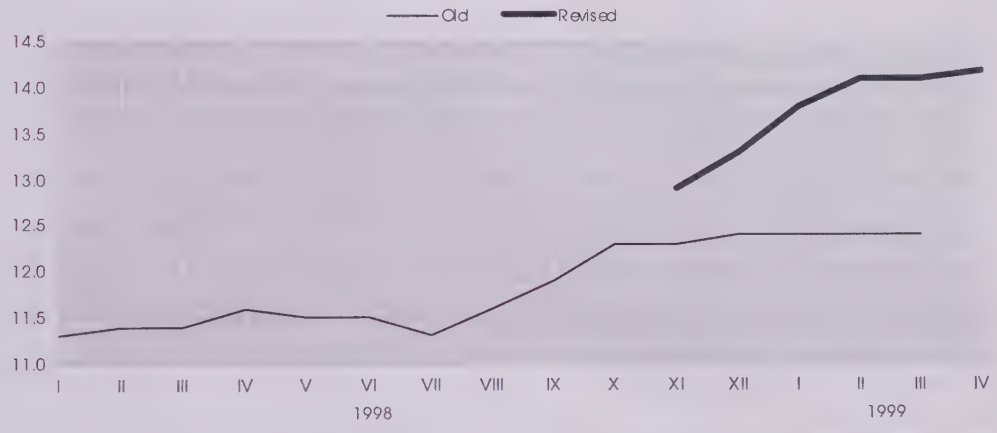
Goskomstat revision of Russian unemployment

In May 1999, the Russian State Statistical Committee (Goskomstat) published further revisions to the series for Russian monthly unemployment – known as "unemployment according to the ILO methodology".[1] The need for another revision to the series arose from the initial results of Goskomstat's February 1999 labour force survey (the previous survey having been conducted in October 1998). The table and the chart below show the old Goskomstat series and the new figures for the period covered by the latest revision, November 1998 to March 1999. As can be seen clearly in the chart, the movement of the two series diverges strikingly after October 1998, with a steadily increasing gap between the old and revised figures. The magnitude of the change is shown by the revision for February 1999, from 12.4 per cent of the labour force to 14.1 per cent.

Russian unemployment: old and revised data for 1998-1999
(Per cent of labour force)

	January	*February*	*March*	*April*	*May*	*June*	*July*	*August*	*September*	*October*	*November*	*December*
1998												
Old data	11.3	11.4	11.4	11.6	11.5	11.5	11.3	11.6	11.9	12.3	12.3	12.4
Revised data											12.9	13.3
1999												
Old data	12.4	12.4	12.4									
Revised data	13.8	14.1	14.1	14.2								
Memorandum item:												
Registered unemployment rate												
1998	2.8	2.8	2.7	2.6	2.5	2.5	2.4	2.4	2.4	2.5	2.6	2.7
1999	2.7	2.7	2.7	2.5								

Russian unemployment, 1998-1999
(Per cent of labour force)



Source: Russian Federation Goskomstat and direct communications to UN/ECE secretariat.

As pointed out earlier,[2] the rise in unemployment suggested by the old series was unexpectedly small given the deep economic recession that followed the financial collapse in August 1998. According to the old series, the unemployment rate in March 1999 was only 0.7 percentage points higher than a year earlier, and 1.1 percentage points above the pre-crisis month of July 1998. The increases of 2.4 and 2.8 percentage points, respectively, in the revised figures, seem to be more realistic given the evolution of the Russian economy.

It should be borne in mind that the Russian monthly "ILO" unemployment data are in fact estimates of what the measure of unemployment would have been had a survey been conducted at that point in time.[3] This means that the unemployment figures starting from March are also estimates, the reliability of which will be known only after the results of the actual labour force survey conducted in May are available.

1 Direct communication to UN/ECE secretariat. For a more detailed discussion of the content and some of the specific features of the Russian monthly "ILO" series see UN/ECE, *Economic Survey of Europe, 1998 No. 3*, pp. 68-69. The discussion there refers to the revisions published by Goskomstat in June 1998.

2 UN/ECE, *Economic Survey of Europe, 1999 No. 1*, p. 132.

3 In 1999, Goskomstat started conducting quarterly labour force surveys in February, May, August and November.

TABLE 2.3.7

Trade performance and trade balances of the ECE transition economies, 1998-1999

(Growth rates in per cent, values in billion dollars)

	Export growth		Import growth		Trade balances		
	1998	1999 QI	1998	1999 QI	1998	1998 QI	1999 QI
Eastern Europe	9.4	-3.2	8.9	-3.3	-40.1	-8.0	-7.6
Albania	46.2	..	28.2	..	-0.6	..	..
Bosnia and Herzegovina [a]	134.5	-1.3	30.2	-22.3	-1.6	-0.2	-0.2
Bulgaria	-13.1	-24.1	1.3	-11.1	-0.7	-0.2	-0.2
Croatia	8.9	-11.1	-7.9	-13.7	-3.8	-0.8	-0.7
Czech Republic	15.7	-1.2	4.6	0.5	-2.5	-0.4	-0.6
Hungary	20.4	8.4	21.0	9.4	-2.7	-0.6	-0.7
Poland [b]	2.6	-8.2	10.9	-6.5	-18.8	-4.3	-4.1
Romania	-1.6	-9.0	4.8	-8.1	-3.5	-0.6	-0.6
Slovakia	10.7	-4.5	11.0	-9.6	-2.3	-0.5	-0.3
Slovenia	8.1	0.3	7.8	-2.7	-1.0	-0.3	-0.3
The former Yugoslav Republic of Macedonia	11.0	..	9.0	..	-0.6	..	..
Yugoslavia	6.8	..	0.5	..	-2.0	..	..
Baltic states	3.3	-16.6	7.3	-19.1	-5.0	-1.1	-0.8
Estonia	9.7	-11.4	7.1	-18.5	-1.5	-0.4	-0.2
Latvia	8.4	-7.2	17.1	-9.8	-1.4	-0.3	-0.2
Lithuania	-3.8	-25.3	2.7	-24.2	-2.1	-0.5	-0.4
CIS [c]	-15.3	-16.3	-14.0	-39.1	23.0	2.6	7.5
Armenia	-3.9	-9.0	0.4	-10.2	-0.7	-0.1	-0.1
Azerbaijan	-22.4	3.8	35.6	13.7	-0.5	-0.1	-0.1
Belarus	-3.9	-23.5	-2.1	-37.5	-1.5	-0.5	-0.1
Georgia	-20.8	-6.9	12.1	-44.0	-0.9	-0.2	-0.1
Kazakhstan	-17.8	-29.0	-1.4	-7.5	1.1	0.5	0.2
Kyrgyzstan	-14.9	-9.7	18.6	-23.3	-0.3	-0.1	–
Republic of Moldova	-27.7	-43.8	-12.6	-54.8	-0.4	-0.1	–
Russian Federation	-16.3	-15.4	-17.7	-48.2	28.5	4.1	8.1
Tajikistan	-19.3	0.7	2.8	-10.3	-0.2	-0.1	–
Turkmenistan	-20.9	184.5	-20.1	2.3	-0.4	-0.1	0.1
Ukraine	-11.2	-21.7	-14.3	-27.1	-2.0	-0.8	-0.4
Uzbekistan	-19.6	-10.1	-27.3	-16.4	0.2	0.1	0.1
Total above	-3.4	-9.9	0.3	-17.8	-21.1	-6.5	-0.9
Memorandum items:							
CETE-5	11.5	-1.3	11.0	-1.7	-27.3	-6.1	-5.9
SETE-7	1.0	-13.5	2.1	-11.1	-12.8	-1.8	-1.7

Source: National statistics. For CIS countries: CIS Statistical Committee, direct communication to the UN/ECE secretariat. UN/ECE secretariat estimates for Turkmenistan. *Uzbekistan Economic Trends*, direct communication to the UN/ECE secretariat.

Note: For country groupings see the note to table 2.3.1. Aggregate growth rates and trade balances for eastern Europe and SETE-7 in first quarter 1998 and 1999 do not include Albania, The former Yugoslav Republic of Macedonia and Yugoslavia.

[a] January-February instead of January-March.

[b] Trade balance for 1998 is derived from exports and imports based on the new methodology.

[c] Total CIS trade with CIS and non-CIS countries.

East European and Baltic exports continued to grow only in trade with the developed market economies, but the rise of some 7 per cent was less than half the rate in 1998. Within this aggregate there were larger increases (10 to 15 per cent) in Czech, Slovak and Hungarian exports to the EU, but below average changes (6 and 2 per cent) for Slovenia and Poland partly reflected greater competition from cheaper Asian goods.

Export volumes grew slightly more or declined less than values as export prices (in dollars) for many countries in the region continued to fall in the early months of 1999. Import prices, however, fell even more due mainly to weak world demand, particularly for primary commodities, although manufactured goods prices were also somewhat cheaper.[103]

[103] For instance, Polish and Slovene export dollar unit values declined on average by 4.5-5.2 per cent in January-March 1999 year-on-year. Czech average export unit values remained broadly flat, although those for manufactured goods (SITC 6 and 8) declined by 2-3.5 per cent. In Hungary, export unit values (in dollar terms) declined on average by 3.6 per cent and those for manufactured goods (SITC 5,6,8,9) by 2 per cent. For imports, dollar unit values shrank by a few percentage points more on average, with considerably larger declines for raw materials and fuels. Thus, for most of the east European and Baltic countries there was a further improvement in their terms of trade.

The total value of imports into the east European and Baltic countries fell by some 5 per cent in the first quarter of 1999, partly a result of the cooling down of aggregate demand in the area and lower global commodity prices. Increases in the cost of import credit and weaker domestic currencies in some countries, as well as recent administrative measures to increase protection against imports, have also played a role.[104]

For the first time since the transition started, imports into the three Baltic countries declined considerably in the first quarter (table 2.3.7 and appendix table B.11). There were also large falls in import values (10-14 per cent) in Bulgaria, Croatia and Slovakia, mainly because of severely constrained domestic demand but also domestic currency depreciation in the latter two. In most of the other countries imports also fell, although less notably; the main exception was Hungary where they grew rather strongly, by 9 per cent with above average increases coming from CEFTA and the EU. In all the other east European and Baltic countries only imports from the developed market economies continued to increase.

The improvements in the merchandise trade balances of most countries in the region in the first months of 1999 were predominantly caused by lower imports. However, in Hungary, the Czech Republic (where imports remained flat) and Bulgaria, trade deficits increased by some $60-$120 million in the first quarter of 1999 (table 2.3.7). In the same period, the aggregate east European and Baltic countries' deficit was $8.4 billion compared with $9.1 billion a year earlier. There was a particularly large fall in the region's merchandise trade deficit with the developed market economies (from $6.1 billion to $4.5 billion), but with the CIS the deficit increased substantially (from $0.7 billion to $1.6 billion) as the collapse of imports from the CIS was notably less severe than of exports to it.

As far as changes in the commodity pattern of trade are concerned, the impact of globally weaker demand for primary commodities and most intermediate goods (reflected in a further fall in their prices on international markets) seems to have been less important for the east European and Baltic trade than the collapse of the CIS market, in particular for exports of agricultural products, and a range of industrial and consumer goods. According to the data available at the moment of writing this *Survey*, the dollar value of the region's exports of food, beverages and tobacco (SITC 0 and 1) sank by 25-40 per cent (year-on-year) in the first quarter of 1999, leading to large falls in its share of total exports. In Estonia, for instance, the share of these products in total exports fell from 17 per cent a year earlier to 14 per cent in January-March 1999, in Hungary, from 11 to 7 per cent, and in the Czech Republic from 5 to 3 per cent.

In the Baltic states and in some south-east European countries exports of industrial goods also suffered considerably from the loss of the CIS market. In Lithuania, for instance, the value of exports of machinery and transport equipment (SITC 7) to the CIS fell by $75.5 million and by one third to all markets when compared with January-March 1998; in Bulgaria, too, exports from this sector fell by more than 30 per cent. In contrast, in the central European transition economies, this sector is widely engaged in the vertically integrated production processes of multinational companies and does not appear to have been affected by the Russian crisis, remaining in fact the major source of export earnings in most of them.

A recovery of east European and Baltic countries' trade is not very likely in the short run as external demand, especially in the west, seems to be flat, and within the region demand is weakening. The Kosovo conflict has added another major disturbance to foreign trade flows, as discussed in chapter 1, not only for the south-east European countries but for all the European transition economies. Following closely on the collapse of the CIS market, this new shock is likely to reinforce and prolong the negative effects on trade which were already observable before its outbreak.

(b) CIS countries

In the first quarter of 1999, the dollar value of *total merchandise exports* from the CIS countries fell by 16 per cent and *imports* by 39 per cent (table 2.3.7). All CIS countries' total exports declined, except from Azerbaijan and Tajikistan where they increased slightly, and Turkmenistan where they tripled due to a short-lived resumption of natural gas sales to Ukraine. Total imports also fell across the board, except in Azerbaijan and Turkmenistan. The CIS area's *merchandise trade* surplus showed a significant improvement over the first quarter of 1998, increasing from $2.6 billion to $7.5 billion, due to a very large surplus in Russia. The first quarter trade performance did not significantly differ from that in 1998 as a whole. The value of exports continued to be affected by lower commodity prices while imports fell even more than in 1998, reflecting the financial crisis in Russia, weaker national currencies, and falling GDP in Russia, Kazakhstan and Ukraine, the three largest economies of the CIS region.

As most CIS countries are largely dependent on commodity exports, the prices of crude oil, metal, gold and cotton are usually major determinants of their trade performance. In the first quarter of 1999, prices for these commodities were considerably lower than in the

[104] For some details on the attempts of individual east European and Baltic countries to increase import duties, impose quotas and other non-tariff barriers to trade in the beginning of 1999 see UN/ECE, *Economic Survey of Europe, 1999 No. 1*, sect. 3.6(ii), pp. 150-152.

corresponding period of 1998.[105] CIS ferrous metal shipments, in addition to weak global demand, continued to face anti-dumping actions across the world.[106] These lower prices could not be offset by increased volumes and so there were large falls in the export earnings of all CIS primary commodity exporters.

After the financial collapse of August 1998, Russia – the economic engine of the CIS region – is slowly recovering. As anticipated, the rouble devaluation has not had a substantial impact on Russia's *exports*, which are generally priced in dollars and constrained by transportation capacity. Exports to the non-CIS area have also been discouraged by the imposition of export duties on virtually all primary commodities. While they are ostensibly aimed at reducing the fiscal deficit and slowing capital flight, the duties also make the Russian trade regime more complex – thus, potentially, making economically undesirable rent-seeking activities more attractive.[107] The low level of Russian imports continued throughout the first quarter due to a much lower real value of the rouble and lower industrial output. The much-awaited import substitution has yet to emerge on a large scale.[108] While anecdotal evidence points to some relatively dynamic areas of import substitution, notably in a few consumer durable and non-durable goods sectors, many observers question the assertion that the weak industrial recovery from the trough of September 1998 is the result of import-substituting activities.[109] Moreover, as real wages have declined, domestic producers may be gaining market share while the total size of the Russian consumer market is shrinking. Nonetheless, the increase in domestic production might possibly become a foundation for lasting economic growth in Russia but it is still too soon to be confident about this.

The Russian financial crisis, in addition to inflicting heavy economic costs on Russia, continues to have a negative effect on the other CIS countries. In the first quarter of 1999, Russia's imports from CIS countries were down by 50 per cent, a reduction that has certainly contributed to the first quarter GDP contraction (year-on-year) in the largest CIS economies of Ukraine and Kazakhstan and flat GDP growth in Belarus. Improved export performance in many CIS countries crucially depends on the prospects for economic recovery in Russia, but in its present state Russian domestic demand is neither greatly responsive to cheaper domestic substitutes nor is it demanding imports from the CIS. In addition to the immediate reduction in the demand for CIS goods, the devaluation of the Russian rouble has forced CIS countries to devalue their own national currencies. Other than in Armenia and Azerbaijan, nominal dollar exchange rates have depreciated between August 1998 and March 1999, by between 10 per cent in Kazakhstan to 80 per cent in the official rate in Belarus.[110] Real exchange rates, in dollar and CPI terms, have also declined as in most cases the fall in nominal rates has outpaced the rate of inflation. In Armenia and Azerbaijan, the currencies have remained relatively strong in both nominal and real terms. In Armenia, the nominal rate has been relatively steady largely due to the approval of domestic economic policies by the international lending institutions. In Azerbaijan, a falling inflation rate and the continued interest of foreign investors in the country's oil and gas fields have contributed to the strength of the national currency. Considering the relatively strong domestic currencies of both countries, the large reductions in their exports to CIS markets may also partly reflect a loss of competitiveness.

In the trade policy area, CIS countries have continued to work on the framework governing their mutual trade relations in spite of (or perhaps because of) drastically curtailed intra-CIS trade.[111] Recent discussions on the creation of a CIS free trade zone did not produce an agreement as the member countries remained divided over the collection of value added taxes on goods crossing their borders.[112] The disagreements caused by conflicting economic

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[105] While virtually all commodity prices began to recover in April 1999, in the first quarter of 1999 (year-on-year) crude oil, gasoline and heating oil prices were between 17 and 23 per cent lower. Prices of base metals such as copper, aluminium and nickel were down 15-18 per cent. Cotton prices were 19 per cent lower and the already low gold price was 3 per cent lower.

[106] New investigations, duties or minimum prices in the Philippines, Canada, Argentina and Venezuela in April and May have expanded the list of anti-dumping measures undertaken against Kazakh, Russian and Ukrainian steel products.

[107] The Russian government has further increased the number of goods subject to export duties (e.g. hardwood, seafood, alcohol, scrap metal, fertilizers and paper) and in some cases raised their rates (base metals).

[108] Many domestic producers raised prices after August 1998, effectively neutralizing any positive devaluation effects.

[109] See for example, "Rouble's crash helps to restock the Lada", *Financial Times*, 7 June 1999 and PlanEcon, "Russia – still far from growth", *Monthly Report*, 27 April 1999.

[110] The pressures for depreciation continued in the second quarter, particularly in Kazakhstan, which belatedly abandoned its intervention policy in April 1999, and Kyrgyzstan.

[111] The CIS Treaty on the Creation of a Free Trade Zone of 15 April 1994 envisages transitional free trade arrangements among CIS countries leading to the establishment of a customs union characterized by a unified customs and foreign economic policy toward third countries.

[112] Presently, CIS countries use different tax principles for intra-CIS and non-CIS destined trade. Under the "destination principle" – applied to trade with non-CIS countries – CIS exports are zero rated and imports are taxed. Under the "origin principle" – used by some CIS countries in intraregional trade – VAT is payable by domestic producers regardless whether the good is exported or not. Considering this duality, some CIS countries are gradually moving to the internationally accepted "destination principle" for their intra-CIS transactions. For example, in April 1999, Belarus signed bilateral agreements with Kazakhstan and the Republic of Moldova to switch from origin-based taxation to the destination principle.

objectives among the CIS countries were also evident in the regional trade tensions that have continued in central Asia.[113]

In the first quarter of 1999, the dollar value of Russia's and other CIS countries' *exports to non-CIS* countries fell by 8 per cent (table 2.3.8). The traditional commodity exporters such as Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Ukraine and Uzbekistan registered export declines of between 3 and 15 per cent which largely reflected lower commodity prices. Their responses to lower commodity prices varied. Russia's exports of crude oil, natural gas, aluminium, coal and copper, in volume, increased between 1 and 17 per cent, while those of ferrous metal, iron ore and nickel declined.[114] Kyrgyzstan's non-CIS exports are dominated by gold from the Kumtor gold mine, which has continued to meet its production targets. In Tajikistan, falling export prices of two key exports, aluminium (down 6 per cent) and cotton (down 20 per cent), contributed to a flat export performance despite a 50 per cent increase in the volume of aluminium exported. In Uzbekistan, the recent poor cotton harvest was behind the 7 per cent fall in non-CIS exports. The remaining CIS countries (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Turkmenistan) registered considerably higher first quarter non-CIS exports. The increases ranged from 5 per cent in the Republic of Moldova to 82 per cent in Azerbaijan and were due to a variety of factors. Armenian exports to non-CIS countries were up one third, probably on the strength of jewellery and precious stone sales to western Europe and scrap metal to Iran. Azerbaijan's non-CIS exports increased by over 80 per cent, largely as a result of the new export pipeline and increased crude oil production. Turkmenistan's exports increased as a result of a doubling of crude oil extraction and a subsequent increase in exports of refined oil products.

The aggregate of CIS *imports from non-CIS* countries fell by 41 per cent. The decreases were between 3 per cent in Kyrgyzstan and 61 per cent in the Republic of Moldova with Russia's imports down by almost 50 per cent. The key factors explaining this fall are declining real exchange rates, falling industrial output and declines in retail trade in most CIS economies. Anecdotal evidence also suggests that CIS consumers have begun to substitute food, alcohol, tobacco and other locally produced non-durables for better quality, but relatively more expensive non-CIS imports. Finally, countries such as Belarus, the Republic of Moldova, Ukraine and Uzbekistan, have been forced to deal with balance of payments problems by reducing imports. The three countries that went against the general trend by increasing their non-CIS purchases were Azerbaijan, Tajikistan and Turkmenistan. Azerbaijan's non-CIS imports (mostly machinery and oil extraction equipment) are still rising, albeit at a slower rate due to spending cutbacks on oil exploration, the withdrawal of some oil companies from the country and the general slowdown in the development of new wells by foreign oil companies.

In the first quarter of 1999, the value of *intra-CIS trade* decreased by some 36 per cent (table 2.3.8). Exports and imports declined across the board, with the exception of a small increase in Tajikistan's exports and a fivefold increase in Turkmenistan's exports. The latter's exports were boosted by natural gas sales to Ukraine, after a two year period of being unable to access the Russian gas pipeline network, resulting in a tripling of natural gas output.[115] The dramatic overall decline in the mutual trade of the CIS is a result of the Russian financial crisis and, in some cases, supply-side difficulties. The Russian financial crisis and the subsequent contraction of import demand for consumption as well as industrial goods has affected all the CIS countries. Russian retail trade was 16 per cent lower than a year earlier while the country's machinery and equipment imports from the CIS region were halved in the first quarter of 1999. Armenia, Georgia and the Republic of Moldova were hit hardest by Russia's lower demand for food, beverages and tobacco products. In Armenia and Georgia, exports of brandy, mineral water and wine were down dramatically. Similarly, the Republic of Moldova's CIS exports fell by 62 per cent with much of this decline due to Russia's economic crisis. The country relies heavily on CIS exports of food, beverages and tobacco, which fell by almost two thirds. In the areas of machinery and intermediate inputs, Armenia, Belarus, the Republic of Moldova and Ukraine fared worst. As a result, the industrial output in Armenia was 4.4 per cent lower while in the Republic of Moldova it fell by 27 per cent. For Belarus, its CIS exports fell by over 40 per cent, reflecting the crisis in Russia, restrictions on trade in Belarussian roubles and higher transportation costs. Unable to sell its output, Belarus has increased barter trade to over 36 per cent of its total

[113] In April, Kazakhstan prohibited Kyrgyz and Uzbek cargo trains from crossing its territory until these countries pay their transit debt. Uzbekistan cut off Kyrgyzstan's natural gas supplies when the country failed to make in-kind payments on time. In return, Kyrgyzstan cut off water supplies to Kazakhstan after the country did not supply it with coal. Finally, Uzbekistan imposed duties of $300 per vehicle on Kazakhstan's cargo vehicles entering its territory and it also revised a list of imported commodities and their tax rates from Kazakhstan and Kyrgyzstan, which are subject to excise taxes ranging from 10 to 100 per cent.

[114] Russian Federation Goskomstat, *Sotsial'no-ekonomicheskoe polozhenie Rossii* (Moscow), January-April 1999, p. 143.

[115] Ukraine suspended Turkmenistan's natural gas exports in May because of the country's admitted inability to pay mounting gas debt arrears.

TABLE 2.3.8

CIS countries' trade with CIS and non-CIS countries, 1998-1999
(Value in million dollars, growth rates in per cent)

	Export growth		Import growth		Trade balances		
	1998	1999QI	1998	1999QI	1998	1998QI	1999QI
Armenia							
Non-CIS	3.3	31.2	13.7	-7.2	-532	-115	-96
CIS	-14.4	-49.5	-26.0	-17.4	-140	-30	-34
Azerbaijan							
Non-CIS	-7.2	82.4	51.7	28.8	-299	-59	-50
CIS	-38.6	-52.2	15.3	-7.0	-173	-10	-40
Belarus							
Non-CIS	-0.7	34.0	4.6	-29.3	-1 094	-359	-4
CIS	-5.1	-40.1	-5.3	-41.7	-399	-142	-62
Georgia							
Non-CIS	-17.4	23.9	12.7	-53.4	-592	-146	-56
CIS	-23.5	-28.6	11.3	-25.4	-274	-62	-47
Kazakhstan							
Non-CIS	-7.9	-15.1	13.8	-3.4	999	324	222
CIS	-29.6	-45.3	-14.2	-11.5	99	194	-54
Kyrgyzstan							
Non-CIS	-0.5	-10.8	46.5	-3.2	-118	2	-4
CIS	-27.8	-8.1	1.1	-37.7	-210	-54	-19
Republic of Moldova							
Non-CIS	-23.6	5.1	2.9	-61.3	-381	-114	-13
CIS	-29.5	-61.9	-27.2	-46.6	-11	-4	-22
Tajikistan							
Non-CIS	-16.7	-2.8	-1.3	16.7	129	38	26
CIS	-23.8	7.0	5.0	-20.4	-299	-98	-64
Turkmenistan							
Non-CIS	47.2	43.3	-9.5	35.4	-39	-23	-25
CIS	-66.3	446.2	-28.2	-21.3	-348	-108	127
Ukraine							
Non-CIS	-2.4	-11.4	-6.5	-38.1	1 657	501	853
CIS	-24.8	-41.0	-20.1	-20.1	-3 695	-1 319	-1 279
Uzbekistan							
Non-CIS	-9.3	-6.4	-27.1	-19.5	237	29	98
CIS	-39.2	-19.0	-27.8	-8.5	3	17	-9
Total above							
Non-CIS	-4.3	-4.1	-2.5	-25.6	-33	77	952
CIS	-22.3	-34.0	-14.6	-25.8	-5 446	-1 615	-1 502
Russian Federation							
Non-CIS	-15.8	-8.7	-16.7	-47.4	26 146	3 339	7 158
CIS	-18.4	-37.9	-20.5	-50.5	2 314	747	892
CIS total							
Non-CIS	-13.3	-7.7	-12.2	-41.3	26 113	3 416	8 110
CIS	-20.4	-36.0	-16.9	-35.4	-3 133	-868	-610

Source: CIS Statistical Committee, direct communication to the UN/ECE secretariat. UN/ECE secretariat estimates for Turkmenistan. *Uzbekistan Economic Trends*, direct communication to the UN/ECE secretariat.

foreign trade.[116] Kazakhstan's CIS exports fell by 45 per cent in the first quarter, its relatively strong national currency being an additional factor depressing the country's exports. After effectively devaluing the currency in April (it fell by 22 per cent in March), the government expects the new exchange rate policy to raise the competitiveness of Kazakh products in Russia and in other CIS markets. Similarly, Azerbaijan's CIS exports were affected by the relative appreciation of the domestic currency.

[116] Belarus Ministry of Statistics and Analysis as quoted in BBC Monitoring, *Summary of World Broadcasts*, 3 June 1999.

(v) Current account and financial developments

(a) Current account developments

Two economic shocks – faltering import growth in western Europe and the devaluation of the Russian rouble in August 1998 – have contributed to larger current account imbalances in many transition economies. This deterioration, which became apparent already in mid-1998, resulted in a current account deficit in eastern Europe of nearly $18 billion in 1998 or some 4.6 per cent of GDP (table 2.3.9). In the Baltic states, the growth of the already large deficits appears to have been reversed in Estonia and possibly checked in Lithuania, but in Latvia the imbalance has continued to mount. In general, the deficits would have been still larger but for falling commodities prices and unsettled capital markets. The fall of world commodity prices moved Russia's current account into deficit in the first half of 1998, but there was a surplus for the whole year ($2.4 billion)[117] due to the collapse of imports following the rouble devaluation. In Belarus, the Republic of Moldova, Romania, The former Yugoslav Republic of Macedonia and Ukraine, large exchange rate depreciations and reduced possibilities for foreign borrowing helped to curb the growth of current account imbalances although, with the exception of Ukraine, they increased nonetheless.

In early 1999, the transition economies have been facing increasing pressure on their balance of payments. Projections of west European economic growth had been steadily lowered and, although the currencies of several transition economies had depreciated, there were other signs of declining export competitiveness.[118] Moreover, borrowing prospects were uncertain, particularly for the higher credit risk countries, as a result of the continuing volatility in international financial markets. This situation underlines the growing importance of foreign direct investment (FDI), net inflows of which covered some 70 per cent of the current account deficits of eastern Europe and the Baltic states in 1998. However the continuation of these large inflows was also uncertain given excess global capacity in key industrial sectors, worsening prospects for economic activity, especially in the transition economies, and in the latter the possibility of further postponements of privatizations due to unfavourable market conditions.[119] This outlook for larger current account deficits, large debt servicing obligations (in several instances), and doubts about the size of foreign

[117] The current account moved into surplus in the third quarter of 1998, rising to over $6 billion in the fourth quarter.

[118] UN/ECE, *Economic Survey of Europe, 1999 No. 1*, pp. 174-175.

[119] Factors potentially affecting FDI flows in the wake of the Asian crisis have been discussed in recent issues of the *Survey*.

TABLE 2.3.9

Current account balances in selected ECE transition economies, 1997-1999
(Million dollars and percentage of GDP)

	Million dollars								Percentage of GDP	
			January-February		January-March		January-April			
	1997	1998	1998	1999	1998	1999	1998	1999	1997	1998
Eastern Europe [a]	-14 703	-17 557	..	..	..	..	..	..	-4.2	-4.6
Albania	-271	-187	..	..	..	..	..	..	-12.0	-6.4
Bosnia and Herzegovina [b]	-1 468	-1 580*	..	..	..	-411	..	..	-44.0	-38.5
Bulgaria	427	-252	-51	-234	-89	-234	..	..	4.2	-2.1
Croatia	-2 434	-1 554	..	..	-670	-490	..	..	-12.1	-7.3
Czech Republic	-3 211	-1 046	..	..	-349	-315	..	..	-6.2	-1.9
Hungary	-981	-2 298	-226	-239	-381	-598	-444	-763	-2.1	-4.8
Poland	-4 312	-6 858	-1 243	-1 382	-1 998	-2 226	-2 453	-3 144	-3.0	-4.3
Romania	-2 338	-3 010	-33	-192	-224	-277	..	..	-6.7	-7.9
Slovakia	-1 343	-2 059	-332	-147	..	..	..	..	-6.9	-10.1
Slovenia	37	-4	-47	44	-78	-15	-96	-140	0.2	–
The former Yugoslav Republic of Macedonia	-276	-289	-76	-35	-86	-49	..	..	-7.5	-8.2
Yugoslavia [c]	-1 317	-1 200*	..	..	..	..	..	..	-6.7	-4.6
Baltic states	-1 889	-2 458	..	..	..	..	..	..	-9.5	-11.0
Estonia	-563	-447	..	..	..	..	..	..	-12.1	-8.6
Latvia	-345	-713	..	..	..	..	..	..	-6.1	-11.1
Lithuania	-981	-1 298	..	..	..	..	..	..	-10.2	-12.1
European CIS	1 648	348	..	..	..	..	..	..	0.3	-0.1
Belarus	-799	-945	..	..	-369	21	..	..	-6.0	-7.1
Republic of Moldova	-267	-333	..	..	-104	-14	..	..	-13.9	-20.3
Russian Federation	4 049	2 446	..	..	..	..	..	..	0.9	0.9
Ukraine	-1 335	-821	..	..	..	..	..	..	-2.7	-2.0
Total above [a]	-14 944	-19 667	..	..	..	..	..	..	-1.7	-2.7

Source: National balance of payments statistics and UN/ECE secretariat. IMF for Ukraine 1998.

a Excludes Bosnia and Herzegovina and Yugoslavia.

b Excludes official transfers.

c Adjusted for imports of goods for processing and finishing (see chapter 1).

capital inflows has raised questions as to whether the financial positions of several countries can be sustained.[120]

Incomplete data do in fact show some widening of current account deficits in the first few months of 1999 (table 2.3.9) which, at least in Hungary and Poland, seem to have been larger than officially expected (although neither country faces financing difficulties). The worsening of the imbalances was often due to a contraction of exports of goods and services, reflecting the weakness of foreign markets as well as internal factors. Smaller imbalances were reported by Croatia and Slovakia, both of which have tightened macroeconomic policies to reduce their high current account deficits in 1999. A depreciation of real exchange rates appears to have been a factor in this outcome, as also seems to have been the case in the Czech Republic and Slovenia (although neither has had a large deficit). In Belarus and the Republic of Moldova, tighter financing constraints appear to explain the shift of the current account into surplus and the smaller current account deficit, respectively, in the first quarter of 1999.

These developments largely occurred before the recovery of international fuel prices in the second quarter of 1999 and the conflict in Kosovo. As far as the latter is concerned, the current account balances of all transition economies have been adversely affected to different degrees by the disruption of merchandise exports, the higher costs of transport, and losses of revenue from transport services and transit (see chapter 1). Tourism is reported to have been hit hard in south-east Europe and also in Slovenia (which reported a large increase in the overall current account deficit in April) and Hungary. Widespread cancellations of reservations imply that the full impact will only become apparent during the peak tourist season (the second and third quarters of the year). However, in several countries, currency depreciations in the early part of the year and weaker than expected economic activity may help to reduce current account deficits, as would any strengthening of west European economic growth in the second half of 1999. In Russia, customs statistics

[120] UN/ECE, *Economic Survey of Europe, 1999 No. 1*, pp. 172-179.

suggest that the current account surplus continued to increase in the first months of 1999, a development which may be strengthened by the rise in international fuel prices.

(b) Financial flows

Since the end of 1997, it has been more difficult for emerging market borrowers to raise funds in the international financial markets. Many transition economies continue to face higher premia, and they have scaled back their borrowing,[121] which in any case has been largely confined to periods of relatively stable market conditions (as during March-May 1998). However, access virtually ceased following the Russian debt moratorium in August 1998 and again after the devaluation of the Brazilian real in January 1999. Initially, the conflict in Yugoslavia also disrupted debt issuance by the transition economies, but conditions have eased for some of the better credit risks (generally those countries possessing investment grade ratings). In the first half of 1999, these countries issued bonds worth $3.4 billion (less than the already depressed amounts in the same period of 1998).[122] Hungary alone accounted for $1.8 billion, fully covering its 1999 borrowing requirement. Other sovereign borrowers included Croatia (in February), Slovenia (March) and Latvia, Lithuania and Slovakia (June).[123] Except for Hungary's $750 million of dollar bonds, all these issues were denominated in euros, the global popularity of which has recently almost matched that of the dollar. If the current stability of the markets continues, the prospects for filling the financing gaps in the area would be greatly improved.

Despite concerns about the possible impact of global financial turmoil on FDI,[124] inflows to the European transition economies rose from $17.4 billion in 1997 to $18.7 billion in 1998 (although there was a large decline in Russia due to the worsening of the investment climate).[125] Fragmentary data for the first quarter of 1999, mostly from eastern Europe, generally show increases, often very large ones, relative to the same period in 1998. These suggest that long-term considerations involving foreign investment have prevailed over the numerous concerns (some also of a longer-term nature) which emerged after the financial shocks of late 1997. In some transition economies privatizations involving strategic foreign investors have gone ahead because of commitments to improve economic performance, to finance balance of payments (and fiscal) deficits and/or to meet the conditionality of IMF programmes. In other cases, the bulk of FDI has been associated with greenfield projects and additions to existing capacity. The conflict in Yugoslavia initially appears to have frightened investors interested in eastern Europe, but many projects are going ahead. In the Czech Republic a majority share of Ceskoslovenska Obchodni Banka (CSOB) was sold to a strategic foreign investor in June for $1.1 billion. In Slovakia, the much postponed privatization of Slovak Telecom is to be completed before the end of 1999.[126] Within south-east Europe, the situation appears to be more mixed. In Croatia preparations continue for the sale of Croatian Telecom and a large insurance company, and the Romanian authorities remain confident that their ambitious privatization programme can be kept on track. However, in other cases, privatization plans have definitely been delayed.

(vi) Short-term outlook

On balance, the short-term outlook for the ECE transition economies has deteriorated since the beginning of the year. The outbreak of the Kosovo conflict – which was an unexpected negative shock for many transition economies – has undermined the economic prospects for a number of countries, especially those in south-east Europe. The worse than expected performance in some CIS countries in the early months of 1999 suggests that the outcome for the year as a whole in some parts of this region may also turn out to be worse than initially expected.

Since the publication of the previous issue of this *Survey*, the governments in a number of transition economies (Albania, Bulgaria, Hungary, Poland, The former Yugoslav Republic of Macedonia, all three Baltic states, Azerbaijan, Belarus, Georgia, Kazakhstan and the Republic of Moldova) have lowered their 1999 forecasts for economic growth. In view of the strong negative economic impact of the conflict in Yugoslavia as well as the prolonged impact of the depression in

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[121] In 1998 the transition economies raised nearly $19 billion in bonds and medium-term loans, compared with nearly $30 billion in 1997. UN/ECE, *Economic Survey of Europe, 1998 No. 3*, table 4.3.4.

[122] In the first half of 1998, the transition economies raised funds of some $14 billion. Of this, Russia and Ukraine issued bonds worth nearly $6 billion, but they were no longer creditworthy in 1999 and syndicated loans appear to have virtually disappeared.

[123] The cities of Prague and Sofia also issued bonds in June and May, respectively.

[124] Reflecting this pessimism, the IIF estimated that FDI flows into emerging market economies fell by almost 5 per cent in 1998. Institute of International Finance, Inc., *Capital Flows to Emerging Market Economies* (Washington, D.C.), 27 January 1999. However, in the 25 April 1999 update of the same publication, the estimate of the 1998 flow has been raised to show an increase of 4 per cent.

[125] Flows of FDI to Russia fell from $6 billion in 1997 to $2 billion in 1998. See appendix table B.16.

[126] In Slovakia privatization has been slow, but recently the government approved a strategic plan to attract FDI, which includes the sale of shares in the gas and electric utilities. *International Herald Tribune*, 7 June 1999. The government is shortly to consider a plan to sell a minority share of Slovak Telecom to a strategic investor.

Russian import demand, even these revised official growth forecasts for 1999 (as reflected in table 2.3.1) may turn out to be too optimistic for some of the transition economies. In this regard, the only notable exception among the ECE transition economies is Russia, where the short-term prospects have improved from what was previously expected at the start of the year.

According to the official forecasts available at the time of writing this *Survey*, the authorities in three of 12 east European countries expected *falling* GDP in 1999.[127] As there were no obvious signs of a reversal in the current negative outlook at mid-year, it may well be that the number of countries with negative growth will actually increase in the second half. Besides, even the countries forecasting positive growth generally expect lower rates than those achieved in 1998.

The short-term outlook for the east European transition economies highlights once again the increasing divergence among these countries: while growth is expected to continue in most of the central European transition economies (albeit probably at lower rates than in the last few years), it is probable that the south-east European region will see another year of economic decline. On balance, the central European countries appear to be capable of absorbing the negative impact of the deterioration in the external environment with relatively little damage. Conversely, it seems certain that the shock of the Kosovo conflict will lead to the south-east European transition economies falling still further behind.

The short-term economic outlook for the Baltic states is not favourable either. The unexpectedly poor performance in the first quarter suggests that even the revised forecasts have probably not taken into full account all the negative external shocks that these economies have been subjected to recently. Unless a reversal in the current trends materializes in the near future, it may well turn out that some of these countries will end the year in recession or stagnation.

While much uncertainty remains as regards the future of the Russian economy, the short-term prospects have improved somewhat since the beginning of 1999. The problems of the Russian economy are deep-seated and require the implementation of a comprehensive reform programme. At the same time, the very high level of foreign debt is a serious burden for the Russian economy and, as openly admitted by high-level Russian officials, Russia will not be able in the foreseeable future to service its foreign debt without additional foreign assistance. This is why the support of the international financial institutions is crucial. However, relations with the IMF suffered a major blow after the August collapse and remained effectively frozen for several months. Only in late April did Russia and the IMF come close to a framework agreement under which the IMF would lend Russia $4.5 billion over 18 months. However, the approval of this agreement by the IMF board is conditional on a number of measures that the Russian government still has to implement.

Still, in view of the recent improvement in economic performance, the latest official forecasts by the Russian government are more optimistic than they were several months ago. While at the beginning of the year the official government agencies were expecting for 1999 a decline in GDP ranging from between 2 per cent and 10 per cent, by May the expectation was for no more than a 1 per cent decline in GDP.[128] As regards the short-term outlook in the rest of the CIS, it has deteriorated in most cases and it may very well turn out that a number of these countries will end the year in recession.

[127] This number excludes Yugoslavia itself for which no official revisions of macroeconomic forecasts were available; however, it is all too obvious that a large fall in Yugoslav GDP can be expected in 1999.

[128] Statement by acting Finance Minister M. Zadornov, *Reuters*, 25 May 1999.

STATISTICAL APPENDIX

For the user's convenience, as well as to lighten the text, the *Economic Survey of Europe* includes a set of appendix tables showing time series for the main economic indicators over a longer period. The data are presented in two sections, following the structure of the text: *Appendix A* provides macroeconomic indicators for the market economies of western Europe and North America for 1984-1998, *Appendix B* does the same for the east European countries, the Baltic states and the Commonwealth of Independent States for 1980-1998.

Data for the ECE transition economies are preliminary because re-estimated historical series are not yet available for all countries, and longer time series could in some instances be obtained only by splicing older data with the new statistics (as explained in the notes to the tables).

Data were compiled from international and national statistical sources. Regional aggregations are ECE secretariat estimates based either on 1990-1991 or 1996 weights as noted in the footnotes to the tables. The figures for 1998 are based on data available to the secretariat at mid-June 1999.

In June 1996 the European Council decided to replace the previous European System of Integrated Economic Accounts (ESA) dating from 1979 (ESA79) by a new, more comprehensive system, ESA95. The ESA95 is fully compatible with the internationally agreed System of National Accounts 1993 (SNA93), which was already adopted by some ECE member countries.

Following these decisions, an increasing number of countries have started reporting national accounts data according to SNA93 or ESA95 definitions. In the appendix tables A.1 to A.11, mention is made of the countries and the periods for which the series comply with SNA93 or ESA95 definitions. The SNA93 and ESA95 introduce major methodological improvements and extend the coverage of the series compared with the previous national accounts systems – SNA68, ESA70 and ESA79. A note on the main differences will be included in a forthcoming issue of the *Survey*.

APPENDIX TABLE A.1

Real GDP in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	2.5	2.6	2.9	3.1	4.1	3.4	3.4	1.7	1.3	–	2.4	2.6	1.8	2.7	2.6
4 major countries	2.3	2.5	2.8	2.7	4.2	3.2	3.0	1.8	1.2	-0.3	2.7	2.2	1.2	2.1	2.2
France [a]	1.3	1.9	2.0	2.3	4.5	4.0	2.5	1.0	1.5	-0.9	2.1	1.7	1.1	2.0	3.2
Germany [a b]	2.8	2.0	2.3	1.5	3.7	3.6	5.7	5.1	2.2	-1.1	2.3	1.7	0.8	1.8	2.3
Italy	2.6	2.8	2.8	3.1	3.9	2.9	2.2	1.1	0.6	-1.2	2.2	2.9	0.9	1.5	1.4
United Kingdom [a]	2.4	3.8	4.2	4.4	5.2	2.1	0.6	-1.5	0.1	2.3	4.4	2.8	2.6	3.5	2.1
17 smaller countries	3.0	2.7	3.2	4.0	3.7	3.6	4.0	1.5	1.6	0.8	1.8	3.4	3.1	3.9	3.4
Austria	0.3	2.2	2.3	1.7	3.2	4.2	4.6	3.4	1.3	0.5	2.4	1.7	2.0	2.5	3.3
Belgium [a]	2.5	1.0	1.8	2.7	4.6	3.6	2.8	2.0	1.6	-1.5	3.0	2.6	0.9	3.2	2.9
Cyprus	8.8	4.7	3.8	7.0	8.5	7.9	7.4	0.6	9.8	0.7	5.9	6.1	2.0	2.5	5.0
Denmark [a]	4.4	4.3	3.6	0.3	1.2	0.3	1.2	1.4	1.3	0.8	5.8	3.0	3.3	3.1	2.9
Finland [a]	3.0	3.4	2.4	4.1	4.9	5.7	–	-5.9	-3.2	-0.6	3.7	3.9	4.1	5.5	4.7
Greece	2.8	3.1	1.6	-0.5	4.5	3.8	–	3.0	0.5	0.2	2.2	2.0	2.4	3.2	3.5
Iceland	4.1	3.3	6.3	8.5	-0.1	0.3	1.2	1.1	-3.4	1.0	3.7	1.0	5.6	5.4	5.0
Ireland	4.4	3.1	-0.4	4.7	5.2	5.8	8.5	2.0	4.2	3.1	7.3	11.1	7.4	9.8	10.0
Israel	2.2	3.6	3.6	6.2	3.4	1.4	6.3	5.7	6.8	3.4	6.9	7.2	4.7	2.7	2.0
Luxembourg	6.2	2.9	7.8	2.3	10.4	9.8	2.2	6.1	4.5	8.7	4.2	3.8	3.0	4.7	5.7
Malta	0.9	2.6	3.9	4.1	8.4	8.2	6.3	6.3	4.7	4.5	5.7	6.2	3.8	4.4	7.6
Netherlands	3.3	3.1	2.8	1.4	2.6	4.7	4.1	2.3	2.0	0.8	3.2	2.3	3.1	3.6	3.7
Norway [a]	5.9	5.2	3.6	2.0	-0.1	0.9	2.0	3.1	3.3	2.7	5.5	3.8	4.9	4.3	2.1
Portugal	-1.9	2.8	4.1	6.4	7.5	5.1	4.4	2.3	2.5	-1.1	2.2	2.9	3.2	3.7	3.9
Spain	1.5	1.7	3.2	5.6	5.2	4.7	3.7	2.3	0.7	-1.2	2.2	2.7	2.4	3.5	3.8
Sweden	4.0	1.9	2.3	3.1	2.3	2.4	1.4	-1.1	-1.4	-2.2	3.3	3.9	1.3	1.8	2.9
Switzerland	3.0	3.4	1.6	0.7	3.1	4.3	3.7	-0.8	-0.1	-0.5	0.5	0.6	0.3	1.7	2.1
Turkey	6.7	4.2	7.0	9.5	2.1	0.3	9.3	0.9	6.0	8.0	-5.5	7.2	7.0	7.5	2.8
North America	6.7	3.9	3.0	3.0	3.9	3.3	1.2	-1.0	2.6	2.3	3.6	2.3	3.3	3.9	3.8
Canada [a]	5.7	5.4	2.6	4.1	4.9	2.5	0.3	-1.9	0.9	2.3	4.7	2.8	1.7	4.0	3.1
United States	6.8	3.7	3.0	2.9	3.8	3.4	1.3	-1.0	2.7	2.3	3.5	2.3	3.4	3.9	3.9
Total above	4.6	3.2	3.0	3.1	4.0	3.3	2.3	0.3	2.0	1.2	3.0	2.5	2.6	3.3	3.2
Japan	3.9	4.4	2.9	4.2	6.2	4.8	5.1	3.8	1.0	0.3	0.6	1.5	5.0	1.4	-2.8
Total above, *including Japan*	4.5	3.4	2.9	3.2	4.3	3.6	2.7	0.9	1.8	1.0	2.6	2.3	3.0	3.0	2.3
Memorandum items:															
European Union [c]	2.3	2.5	2.8	2.9	4.2	3.5	3.1	1.8	1.1	-0.4	2.8	2.4	1.6	2.5	2.7
Euro area	2.1	2.2	2.5	2.7	4.2	3.9	3.7	2.5	1.4	-0.9	2.4	2.3	1.4	2.3	2.7

Source: National statistics.

Note: All aggregates exclude Israel. Growth rates of regional aggregates have been calculated as weighted averages of growth rates in individual countries. Weights were derived from 1991 GDP data converted from national currency units into dollars using purchasing power parities.

[a] Data correspond to new SNA93 or ESA95 definitions: full period for Canada, Denmark, Finland, Norway and United Kingdom; 1985-1998 for Belgium and France; 1991-1998 for Germany.

[b] West Germany 1984-1991.

[c] Fifteen countries.

APPENDIX TABLE A.2

Real private consumption expenditure in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	1.8	2.5	4.0	3.6	3.7	3.1	3.4	2.2	1.7	–	1.3	1.8	2.0	2.3	2.6
4 major countries	1.8	2.7	4.2	3.8	4.1	3.1	3.1	2.2	1.5	-0.2	1.4	1.6	1.5	1.7	2.4
France [a]	1.1	2.4	2.9	2.6	2.2	2.8	2.6	0.7	0.9	-0.4	1.2	1.2	1.3	0.2	3.4
Germany [a b]	1.8	1.7	3.5	3.4	2.7	2.8	5.4	5.6	2.8	0.2	1.0	1.9	0.9	0.7	1.8
Italy	2.5	3.1	4.2	4.3	4.6	3.6	2.5	2.7	1.3	-3.4	0.9	1.4	0.8	2.6	1.9
United Kingdom [a]	1.9	3.9	6.6	5.4	7.6	3.3	0.7	-1.7	0.4	2.9	2.9	1.7	3.6	4.0	2.7
17 smaller countries	1.7	2.3	3.6	3.0	2.9	3.1	4.1	2.3	2.0	0.5	1.1	2.3	3.0	3.5	3.1
Austria	-1.3	1.9	2.2	2.9	3.3	3.7	3.8	2.8	3.0	0.7	1.8	2.9	2.0	0.7	1.7
Belgium [a]	0.7	2.0	3.1	1.8	3.7	3.9	3.2	3.0	2.2	-1.0	2.0	0.8	1.1	2.3	3.4
Cyprus	4.5	5.9	1.7	5.5	10.5	6.9	9.0	9.9	3.2	-4.8	4.2	10.6	2.8	2.4	7.0
Denmark [a]	3.4	5.0	5.7	-1.5	-1.0	-0.3	0.3	1.8	2.6	1.4	7.1	3.3	2.7	3.6	3.5
Finland [a]	3.1	3.7	4.0	5.2	5.1	4.3	–	-3.5	-4.5	-3.2	2.5	4.3	3.5	2.6	4.5
Greece	1.7	3.9	0.7	1.2	3.6	6.1	2.6	2.8	1.8	0.1	1.5	1.6	1.9	2.5	1.8
Iceland	3.7	4.2	6.9	16.2	-3.8	-4.2	0.5	4.1	-4.5	-4.5	1.9	4.2	6.4	6.0	11.0
Ireland	2.0	4.6	2.0	3.3	4.5	6.5	1.4	2.1	4.6	2.4	6.3	4.1	6.1	6.3	8.8
Israel	-6.9	0.7	15.1	8.9	4.5	0.4	5.6	7.2	8.0	7.3	9.5	7.2	5.0	4.1	3.3
Luxembourg	1.4	2.7	5.7	4.6	4.6	5.1	5.7	6.3	-0.9	1.7	2.4	2.4	1.9	2.5	3.8
Malta	4.0	5.0	1.4	0.5	9.0	9.2	3.8	3.8	4.3	0.8	2.3	10.5	7.7	2.4	2.9
Netherlands	1.2	2.8	2.6	2.7	0.8	3.5	4.2	3.1	2.5	1.0	2.2	2.0	2.7	3.0	4.4
Norway [a]	3.2	9.4	5.0	-0.8	-2.0	-0.6	0.7	1.5	2.2	2.2	4.0	3.4	5.3	3.7	3.1
Portugal	-2.9	0.7	5.6	5.3	6.9	2.6	5.9	3.7	4.3	1.5	2.2	1.6	2.5	3.0	5.2
Spain	-0.1	2.0	3.3	5.8	4.9	5.7	3.6	2.9	2.2	-2.2	0.9	1.6	1.9	3.1	3.8
Sweden	1.4	2.7	4.4	4.6	2.4	1.2	-0.4	0.9	-1.4	-3.1	1.8	0.8	1.3	2.0	2.6
Switzerland	1.3	1.6	2.3	2.2	1.7	2.3	1.2	1.7	0.1	-0.9	1.0	0.5	0.5	1.8	1.8
Turkey	8.1	-0.6	5.8	-0.3	1.2	-1.0	13.1	1.9	4.0	8.6	-5.4	4.8	8.5	8.4	0.1
North America	5.1	4.7	4.0	3.2	4.0	2.4	1.6	-0.7	2.7	2.8	3.3	2.6	3.1	3.5	4.7
Canada [a]	4.5	5.2	4.0	4.1	4.4	3.6	1.3	-1.4	1.8	1.8	3.1	2.1	2.5	4.2	2.8
United States	5.2	4.7	4.0	3.1	3.9	2.3	1.7	-0.6	2.8	2.9	3.3	2.7	3.2	3.4	4.9
Total above	3.4	3.6	4.0	3.4	3.8	2.8	2.5	0.8	2.2	1.4	2.3	2.2	2.6	2.9	3.7
Japan	2.6	3.3	3.5	4.2	5.3	4.8	4.4	2.5	2.1	1.2	1.9	2.1	2.9	1.0	-1.1
Total above, *including Japan*	3.3	3.6	3.9	3.5	4.1	3.1	2.8	1.0	2.2	1.4	2.2	2.2	2.6	2.6	2.9
Memorandum items:															
European Union [c]	1.5	2.6	3.9	3.8	3.9	3.4	3.0	2.3	1.6	-0.4	1.6	1.7	1.7	2.0	2.8
Euro area	1.3	2.3	3.4	3.7	3.4	3.5	3.7	3.1	1.9	-1.0	1.2	1.7	1.3	1.6	2.8

Source: National statistics.

Note: See appendix table A.1.

a Data correspond to new SNA93 or ESA95 definitions: full period for Canada, Denmark, Finland, Norway and United Kingdom; 1985-1998 for Belgium and France; 1991-1998 for Germany.

b West Germany 1984-1991.

c Fifteen countries.

APPENDIX TABLE A.3

Real general government consumption expenditure in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	1.7	3.0	2.9	2.7	2.2	1.4	2.7	2.4	2.6	1.5	0.8	1.0	1.7	0.4	1.4
4 major countries	1.8	1.9	2.3	1.7	2.3	0.2	2.0	1.8	2.9	1.1	1.1	0.5	1.4	–	0.9
France [a]	1.2	2.3	2.6	1.9	4.1	1.6	1.9	2.7	3.8	4.6	0.7	-0.1	2.3	1.7	1.1
Germany [a b]	2.5	2.1	2.5	1.5	2.1	-1.6	2.2	0.4	5.0	0.1	2.4	1.5	1.3	-0.6	-0.1
Italy	2.1	3.1	2.5	3.2	2.7	0.9	1.2	1.7	1.2	0.5	-0.6	-1.1	0.3	-0.8	1.4
United Kingdom [a]	1.0	-0.1	1.6	–	–	0.8	2.5	2.9	0.5	-0.8	1.4	1.6	1.7	–	1.5
17 smaller countries	1.5	5.1	4.1	4.7	2.1	3.7	4.2	3.8	2.0	2.4	0.2	1.8	2.3	1.1	2.3
Austria	0.8	1.3	1.8	0.2	1.1	1.4	1.3	2.2	2.0	2.7	2.5	–	0.6	-3.9	1.3
Belgium [a]	0.6	2.5	1.4	2.8	-0.7	0.8	-0.4	3.9	1.4	-0.2	1.5	1.0	2.3	-0.5	2.4
Cyprus	3.8	3.7	3.6	5.3	10.5	1.9	17.4	3.9	13.8	-14.3	4.1	2.9	11.9	3.4	7.7
Denmark [a]	-0.4	2.5	0.5	2.5	0.9	-0.8	-0.2	0.7	0.9	4.1	2.9	2.2	3.2	1.1	2.6
Finland [a]	2.7	4.5	3.1	4.3	2.3	2.3	3.8	2.0	-2.3	-4.3	0.3	2.0	2.5	2.9	0.4
Greece	3.0	3.2	-0.8	0.9	5.7	5.5	0.6	-1.5	-3.4	4.8	3.5	1.5	1.0	-0.4	0.4
Iceland	0.6	6.5	7.3	6.5	4.7	3.0	4.4	3.1	-0.8	2.3	3.7	1.3	1.0	3.1	3.0
Ireland	-0.7	1.8	2.6	-4.8	-5.0	-1.3	5.4	2.9	2.4	0.4	5.0	2.6	1.5	4.8	5.0
Israel	5.8	2.9	-9.7	18.3	-2.5	-8.6	7.7	4.1	1.4	4.2	-0.2	0.3	5.7	1.9	2.3
Luxembourg	2.2	2.0	2.7	4.7	4.9	3.9	3.1	3.9	1.5	3.7	2.0	2.2	3.3	8.4	4.0
Malta	-2.5	5.6	4.4	9.1	6.0	12.7	5.7	10.9	8.9	6.0	6.4	8.5	8.4	-1.2	-4.6
Netherlands	–	2.4	3.6	2.6	1.4	1.5	1.6	1.5	1.7	1.5	0.6	0.8	1.2	1.5	2.5
Norway [a]	0.8	2.4	1.9	4.6	-0.1	1.9	4.9	4.3	5.3	2.2	1.4	0.3	2.8	2.8	3.7
Portugal	0.2	6.4	7.2	3.8	8.6	6.6	5.4	10.3	1.1	0.9	2.1	2.2	2.0	2.5	3.3
Spain	2.5	6.0	5.4	8.9	4.0	8.3	6.6	5.6	4.0	2.4	-0.3	1.8	1.0	1.4	1.6
Sweden	2.3	2.4	1.3	1.0	0.6	2.1	2.6	2.8	–	0.2	-0.7	-0.9	-0.2	-2.1	1.8
Switzerland	1.7	3.3	3.3	1.6	4.5	5.3	5.4	3.4	0.8	-0.2	2.1	-0.2	1.3	0.1	0.6
Turkey	1.9	14.1	9.2	9.4	-1.1	0.8	8.0	4.5	2.8	8.6	-5.5	6.8	8.6	4.1	5.0
North America	1.6	4.8	4.3	2.1	2.2	2.7	2.4	1.1	–	-0.3	0.3	-0.3	0.5	1.2	1.1
Canada [a]	1.1	4.3	1.9	1.4	4.6	2.8	3.7	2.8	1.0	0.1	-1.2	-0.5	-1.1	-0.5	1.7
United States	1.6	4.8	4.6	2.2	2.0	2.7	2.3	1.0	-0.1	-0.3	0.4	-0.3	0.7	1.3	1.1
Total above	1.6	3.9	3.6	2.4	2.2	2.0	2.6	1.8	1.3	0.6	0.5	0.3	1.1	0.8	1.3
Japan	2.3	0.3	5.1	1.6	2.3	2.0	1.5	2.0	2.0	2.4	2.4	3.3	1.9	1.5	0.7
Total above, *including Japan*	1.7	3.3	3.9	2.3	2.2	2.0	2.4	1.8	1.4	0.9	0.8	0.8	1.2	0.9	1.2
Memorandum items:															
European Union [c]	1.7	2.4	2.6	2.4	2.3	1.3	2.4	2.3	2.6	1.2	1.1	0.7	1.4	0.2	1.2
Euro area	1.8	2.9	2.9	2.9	2.8	1.3	2.4	2.3	3.2	1.5	1.0	0.6	1.3	0.3	1.1

Source: National statistics.

Note: See appendix table A.1.

a Data correspond to new SNA93 or ESA95 definitions: full period for Canada, Denmark, Finland, Norway and United Kingdom; 1985-1998 for Belgium and France; 1991-1998 for Germany.

b West Germany 1984-1991.

c Fifteen countries.

APPENDIX TABLE A.4

Real gross domestic fixed capital formation in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	1.3	2.9	4.3	7.2	8.2	6.6	4.4	-0.3	-0.3	-4.5	1.9	4.0	2.5	3.7	5.0
4 major countries	2.2	1.6	3.4	4.9	8.3	6.0	3.8	-0.1	0.5	-5.7	2.5	2.5	1.2	2.0	4.5
France [a]	-2.6	3.2	5.7	5.9	9.3	7.1	3.3	-1.5	-1.6	-6.4	1.5	2.0	–	0.5	5.7
Germany [a b]	0.1	-0.5	3.3	1.8	4.4	6.3	8.5	6.0	4.5	-4.5	4.0	-0.7	-0.9	0.6	1.8
Italy	3.4	0.5	2.0	4.4	6.9	4.4	3.6	0.8	-1.8	-12.8	0.5	7.1	1.9	0.8	3.5
United Kingdom [a]	9.3	4.0	2.1	8.9	14.8	5.9	-2.3	-8.7	-0.7	0.8	3.6	2.9	4.9	6.9	8.3
17 smaller countries	-0.5	5.5	6.3	11.8	7.8	7.8	5.6	-0.6	-2.0	-2.1	0.6	6.9	5.1	7.1	5.9
Austria	0.1	6.9	2.4	4.4	6.8	6.3	6.6	6.3	0.1	-2.0	8.4	1.2	2.5	2.8	5.0
Belgium [a]	2.5	3.9	3.2	6.2	15.7	12.6	8.5	-4.1	1.7	-3.1	-0.1	5.5	0.9	6.3	3.6
Cyprus	21.5	-7.7	-7.1	4.5	10.6	20.0	-2.8	-1.6	16.2	-12.8	-2.5	-1.7	7.8	-8.4	0.6
Denmark [a]	12.9	12.6	17.1	-3.8	-6.6	0.4	-1.0	-2.8	-1.1	-1.9	7.4	12.3	4.9	10.6	6.1
Finland [a]	-2.1	2.2	-0.4	4.9	9.8	14.8	-4.1	-18.6	-17.3	-16.7	-2.3	10.8	8.4	14.4	8.3
Greece	-5.7	5.2	-6.2	-5.1	8.9	7.1	5.0	4.8	-1.0	-1.8	1.2	5.9	8.8	9.6	9.8
Iceland	9.4	1.0	-1.6	18.8	-0.2	-7.9	3.0	2.0	-11.3	-11.4	-1.1	-2.8	26.5	11.2	23.4
Ireland	-2.5	-7.7	-2.8	-1.1	5.2	10.1	13.4	-6.6	-1.9	-3.6	12.2	10.9	13.6	10.9	11.5
Israel	-11.9	-9.2	7.4	6.1	1.6	-2.2	25.3	41.9	5.2	5.3	8.4	6.0	9.3	-2.3	-3.3
Luxembourg	0.1	-9.5	31.0	17.9	15.0	7.0	2.7	31.6	-9.0	28.4	-14.9	3.5	-1.7	15.2	9.7
Malta	-7.0	-4.0	-8.7	30.7	6.1	1.0	17.9	–	-0.2	11.1	8.5	17.8	-3.8	-7.6	-4.1
Netherlands	5.8	7.0	6.9	0.9	4.6	4.9	1.6	0.2	0.6	-2.8	2.2	4.8	5.4	6.8	3.9
Norway [a]	1.0	-4.0	7.6	0.3	-1.8	-6.9	-10.8	-0.4	-3.1	4.3	4.5	3.4	9.9	15.1	8.1
Portugal	-17.4	-3.5	10.9	18.0	14.8	4.4	7.6	3.5	4.8	-6.0	3.4	4.8	5.7	11.3	9.5
Spain	-6.9	6.1	9.9	14.0	13.9	13.6	6.6	1.6	-4.4	-10.5	2.4	7.8	1.8	5.1	9.1
Sweden	6.9	6.3	0.3	8.2	6.6	11.3	1.3	-8.9	-10.8	-17.2	2.0	12.4	3.7	-4.8	9.7
Switzerland	4.7	2.8	5.4	4.0	8.1	5.3	3.8	-2.9	-6.6	-2.7	6.5	1.9	-2.4	1.5	3.8
Turkey	0.9	11.5	8.4	45.1	-1.0	2.2	15.9	1.2	5.5	26.4	-16.0	9.1	14.1	14.8	-2.4
North America	14.6	6.4	2.2	1.2	2.2	2.3	-1.6	-6.4	4.7	4.5	6.6	4.5	7.7	7.7	9.2
Canada [a]	2.5	10.3	5.4	10.7	9.8	5.9	-3.6	-3.5	-1.3	-2.7	7.4	-1.9	6.5	13.9	3.6
United States	15.6	6.1	1.9	0.4	1.5	2.0	-1.4	-6.6	5.2	5.1	6.5	5.0	7.8	7.1	9.6
Total above	7.9	4.6	3.3	4.2	5.2	4.4	1.4	-3.3	2.2	–	4.2	4.2	5.1	5.7	7.1
Japan	4.3	5.0	4.8	9.1	11.5	8.2	8.5	3.3	-1.5	-2.0	-0.8	1.7	11.1	-1.9	-8.8
Total above, *including Japan*	7.3	4.7	3.5	5.0	6.2	5.0	2.5	-2.3	1.6	-0.3	3.5	3.8	6.0	4.5	4.6
Memorandum items:															
European Union [c]	1.2	2.6	4.1	5.6	8.7	7.0	4.1	-0.3	-0.4	-6.1	2.6	3.8	1.9	3.1	5.3
Euro area	-0.6	1.9	4.6	5.2	7.9	7.2	5.5	1.6	–	-7.2	2.3	3.5	1.1	2.3	4.5

Source: National statistics.

Note: See appendix table A.1.

a Data correspond to new SNA93 or ESA95 definitions: full period for Canada, Denmark, Finland, Norway and United Kingdom; 1985-1998 for Belgium and France; 1991-1998 for Germany.

b West Germany 1984-1991.

c Fifteen countries.

APPENDIX TABLE A.5

Real total domestic demand in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	1.9	2.5	4.0	3.9	4.4	3.5	3.5	1.4	1.3	-0.9	1.7	2.6	1.5	2.6	3.3
4 major countries	2.0	2.2	3.7	3.5	4.8	3.1	2.8	1.5	1.4	-1.4	2.2	1.8	0.9	1.9	3.0
France [a]	0.4	2.5	3.6	3.1	4.4	3.5	2.6	0.4	0.5	-1.5	2.2	1.6	0.6	0.8	3.6
Germany [a b]	1.9	1.0	3.3	2.4	3.6	2.9	5.2	4.7	2.8	-1.0	2.2	1.7	0.3	1.0	2.6
Italy	3.0	3.0	3.5	4.3	4.0	3.1	2.6	1.8	0.7	-5.1	1.2	2.0	0.2	2.4	2.6
United Kingdom [a]	2.7	2.9	4.8	4.8	7.8	2.8	-0.3	-2.5	0.8	2.1	3.4	1.8	3.1	3.9	3.4
17 smaller countries	1.7	2.9	4.4	4.7	3.7	4.5	4.8	1.1	1.3	0.1	0.7	4.1	2.7	3.9	4.0
Austria	1.6	1.9	2.1	2.6	3.2	3.0	4.3	3.6	1.4	0.8	3.6	1.9	1.7	1.8	2.6
Belgium [a]	2.2	1.0	2.6	3.4	4.8	4.2	2.9	1.8	1.8	-1.5	2.1	2.0	0.7	2.3	4.2
Cyprus	9.3	2.2	-1.5	5.6	11.3	9.7	6.3	5.1	9.3	-9.5	6.7	7.8	4.5	0.7	5.6
Denmark [a]	5.4	5.4	6.2	-2.3	-1.2	0.3	-0.6	-0.1	1.7	0.5	7.2	4.9	3.3	4.5	4.8
Finland [a]	2.2	2.9	2.2	5.2	6.6	7.6	-1.3	-8.3	-6.1	-5.6	3.7	4.4	2.5	5.7	4.3
Greece	-0.2	5.6	-1.2	-1.5	7.3	5.3	2.8	3.7	0.4	0.4	1.8	3.2	3.0	3.5	3.3
Iceland	6.1	2.9	4.8	15.7	-0.9	-4.3	1.4	5.1	-5.3	-4.1	1.5	3.1	7.5	6.4	12.0
Ireland	1.1	1.2	1.2	-0.2	2.1	7.3	6.4	0.2	0.2	0.8	6.7	7.2	6.9	7.3	8.1
Israel	-1.9	-2.2	5.4	9.0	2.5	-2.8	9.3	12.1	5.3	6.8	5.3	6.9	5.6	1.4	0.9
Luxembourg	2.3	0.7	8.5	5.4	6.7	8.4	3.3	8.6	-1.5	9.4	-0.4	3.1	1.8	6.8	5.5
Malta	0.8	3.5	–	3.5	11.5	8.3	7.6	4.9	0.1	4.8	2.1	13.7	4.5	1.6	5.6
Netherlands	1.8	3.7	3.8	1.4	1.8	4.7	3.5	1.9	1.6	-1.0	3.0	2.3	3.0	3.6	4.0
Norway [a]	4.8	5.6	7.3	-0.8	-3.1	-2.0	-0.3	0.8	1.7	2.9	3.8	4.2	3.9	6.6	5.8
Portugal	-6.5	1.0	8.2	9.9	10.7	3.3	6.1	4.2	5.0	-1.3	3.0	3.0	2.8	5.2	6.5
Spain	-0.9	2.5	5.4	8.1	7.0	7.8	4.8	2.9	1.0	-4.2	1.3	3.2	1.6	2.9	4.9
Sweden	3.2	4.2	2.1	4.3	2.8	3.7	0.9	-2.1	-1.8	-5.2	2.5	2.6	0.1	0.4	3.9
Switzerland	3.2	1.9	4.5	2.0	2.6	4.1	3.9	-0.6	-2.7	-1.0	2.7	1.9	0.2	1.5	3.9
Turkey	6.4	3.2	7.0	8.9	-1.3	1.5	14.6	-0.9	5.9	14.2	-12.5	11.4	7.6	9.0	0.4
North America	7.5	4.3	3.4	2.9	3.1	2.8	0.8	-1.5	2.7	2.8	3.9	2.0	3.5	4.3	4.8
Canada [a]	4.7	5.8	3.4	4.7	5.3	4.1	–	-1.4	0.9	1.4	3.2	1.7	1.6	5.7	2.2
United States	7.7	4.1	3.4	2.7	2.9	2.7	0.9	-1.6	2.8	3.0	3.9	2.1	3.6	4.2	5.1
Total above	4.7	3.4	3.7	3.4	3.8	3.2	2.1	-0.1	2.0	1.0	2.8	2.3	2.5	3.5	4.1
Japan	3.2	3.8	3.9	5.1	7.4	5.6	5.2	2.9	0.4	0.1	1.0	2.3	5.7	0.1	-3.5
Total above, *including Japan*	4.4	3.4	3.7	3.7	4.3	3.6	2.6	0.4	1.8	0.8	2.5	2.3	3.0	2.9	2.9
Memorandum items:															
European Union [c]	1.6	2.4	3.8	3.8	4.8	3.7	3.0	1.5	1.2	-1.6	2.3	2.1	1.2	2.3	3.4
Euro area	1.3	2.1	3.7	3.8	4.4	3.9	3.7	2.4	1.4	-2.3	2.1	2.1	0.9	1.9	3.4

Source: National statistics.

Note: See appendix table A.1.

[a] Data correspond to new SNA93 or ESA95 definitions: full period for Canada, Denmark, Finland, Norway and United Kingdom; 1985-1998 for Belgium and France; 1991-1998 for Germany.

[b] West Germany 1984-1991.

[c] Fifteen countries.

APPENDIX TABLE A.6

Real exports of goods and services in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	8.8	4.3	1.1	5.0	6.2	7.4	6.3	4.9	4.2	2.4	9.4	8.2	5.9	9.9	5.4
4 major countries	7.5	4.9	0.9	3.2	5.1	8.5	7.5	5.4	3.5	1.3	8.6	8.4	4.5	9.0	4.5
France [a]	7.0	1.9	-0.2	3.6	8.6	10.2	5.4	5.9	5.4	–	7.7	7.7	3.5	10.7	6.2
Germany [a b]	8.2	7.6	-0.6	0.4	5.5	10.2	11.0	12.6	-0.8	-5.5	7.6	5.8	5.3	10.9	6.5
Italy	7.9	3.5	0.8	4.4	5.0	7.7	7.1	0.1	6.8	9.8	10.3	12.0	1.6	5.0	1.3
United Kingdom [a]	6.6	6.0	4.5	5.9	0.6	4.8	4.9	-0.2	4.1	3.9	9.2	9.5	7.5	8.6	3.1
17 smaller countries	11.3	3.1	1.5	8.4	8.4	5.2	4.0	3.8	5.8	4.5	11.1	7.7	8.8	11.5	7.0
Austria	6.3	7.1	-2.3	3.1	10.2	11.3	7.9	5.9	1.7	-1.3	5.6	6.5	6.9	10.1	8.2
Belgium [a]	6.5	0.3	2.8	5.0	9.6	8.3	4.6	3.1	3.7	-0.4	8.4	5.7	1.2	7.1	3.4
Cyprus	15.1	-1.1	-1.7	13.7	13.5	16.8	7.9	-8.4	18.7	-1.3	7.9	4.6	3.7	2.1	-2.0
Denmark [a]	3.5	5.0	–	5.1	7.8	4.3	6.2	7.0	-0.5	0.1	8.2	4.4	3.7	5.5	0.1
Finland [a]	5.0	1.1	1.2	2.7	3.7	1.3	1.4	-7.3	10.4	16.7	13.1	8.7	6.1	14.2	8.3
Greece	16.9	1.3	14.0	16.0	9.0	4.6	-4.0	3.7	8.6	0.5	7.4	2.1	3.0	5.3	7.0
Iceland	2.4	11.1	5.9	3.3	-3.6	2.9	–	-5.9	-1.9	7.1	10.0	-2.2	10.0	5.6	2.6
Ireland	16.6	6.6	2.9	13.7	9.0	10.3	8.7	5.3	13.5	9.7	14.2	19.6	11.7	16.9	19.8
Israel	13.6	10.2	5.6	10.2	-1.5	4.0	2.0	-2.6	14.1	9.9	12.8	8.2	6.8	7.6	6.0
Luxembourg	18.0	9.5	3.3	4.4	11.7	8.1	3.4	6.7	4.8	2.8	4.4	4.4	2.3	7.5	8.3
Malta	4.0	7.4	7.0	12.6	6.1	10.7	13.3	7.5	9.7	5.3	7.1	5.4	-6.7	2.0	5.2
Netherlands	7.5	5.1	1.8	4.0	9.0	6.7	5.3	4.7	2.9	1.5	6.7	6.7	5.2	6.7	5.9
Norway [a]	7.9	7.2	2.2	1.1	6.4	11.0	8.6	6.1	5.2	3.2	8.7	4.3	9.3	5.7	0.5
Portugal	11.6	6.7	6.8	11.2	8.2	13.0	10.0	2.6	4.9	-3.6	8.7	9.1	10.2	8.4	9.3
Spain	11.7	2.7	1.9	6.3	5.1	3.0	3.2	7.9	7.4	8.5	16.7	10.0	10.6	14.8	7.8
Sweden	6.9	1.2	3.7	4.3	2.5	3.1	1.6	-2.3	2.3	7.6	14.0	12.9	6.1	12.8	7.4
Switzerland	7.5	8.0	-0.4	2.3	6.5	6.6	2.1	-2.1	3.0	1.5	1.8	1.6	3.0	9.1	4.1
Turkey	25.4	-1.9	-5.1	26.4	18.4	-0.3	3.1	3.1	11.0	7.7	15.2	8.0	22.0	19.1	10.5
North America	9.1	2.9	7.2	10.4	15.4	10.8	8.2	6.0	6.7	3.6	8.6	11.1	8.3	12.4	2.1
Canada [a]	18.6	5.5	5.2	3.3	9.5	1.3	4.7	2.3	7.9	10.9	13.1	9.0	5.8	8.5	8.2
United States	8.3	2.7	7.4	11.0	15.9	11.7	8.5	6.3	6.6	2.9	8.2	11.3	8.5	12.8	1.5
Total above	8.9	3.6	4.1	7.7	10.8	9.1	7.2	5.4	5.5	3.0	9.0	9.6	7.1	11.1	3.7
Japan	14.8	5.4	-5.7	-0.5	5.9	9.1	6.9	5.2	4.9	1.3	4.6	5.4	6.3	11.6	-2.3
Total above, *including Japan*	9.9	3.9	2.6	6.4	10.0	9.1	7.2	5.4	5.4	2.7	8.3	9.0	7.0	11.2	2.8
Memorandum items:															
European Union [c]	8.0	4.5	1.4	4.1	5.6	7.7	6.5	5.2	3.9	2.2	9.3	8.4	5.2	9.5	5.2
Euro area	8.2	4.4	0.5	3.4	6.6	8.5	7.2	6.4	3.9	1.7	9.3	8.3	4.8	9.7	5.6

Source: National statistics.

Note: See appendix table A.1.

[a] Data correspond to new SNA93 or ESA95 definitions: full period for Canada, Denmark, Finland, Norway and United Kingdom; 1985-1998 for Belgium and France; 1991-1998 for Germany.

[b] West Germany 1984-1991.

[c] Fifteen countries.

APPENDIX TABLE A.7

Real imports of goods and services in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	6.6	4.3	5.4	9.2	7.8	8.7	7.6	3.9	4.2	-1.6	6.4	8.4	4.6	10.0	7.4
4 major countries	7.2	4.2	4.9	7.6	7.9	8.2	6.9	4.6	4.1	-3.9	7.0	7.1	3.1	9.2	7.0
France [a]	2.7	4.5	6.8	7.8	8.9	7.9	5.7	3.1	1.8	-3.7	8.2	8.0	1.6	6.2	8.7
Germany [a b]	5.2	4.5	2.7	4.2	5.1	8.3	10.3	13.1	1.5	-5.4	7.3	5.7	3.4	8.2	8.0
Italy	12.2	5.0	4.3	12.0	6.1	9.0	9.4	3.3	7.4	-8.8	6.8	9.6	-1.1	9.9	6.1
United Kingdom [a]	9.9	2.5	6.9	7.9	12.8	7.4	0.5	-5.0	6.8	3.2	5.4	5.5	9.1	13.4	4.6
17 smaller countries	5.4	4.6	6.3	12.3	7.8	9.7	9.1	2.6	4.5	3.0	5.3	11.2	7.5	11.4	8.0
Austria	10.0	6.2	-2.9	5.4	10.4	8.4	7.3	6.5	1.8	-0.7	8.3	7.0	6.3	8.7	6.9
Belgium [a]	6.3	0.2	4.5	6.7	10.4	9.6	4.8	2.8	4.1	-0.4	7.2	5.0	1.0	6.0	5.3
Cyprus	16.4	-4.5	-11.0	5.5	13.4	20.4	5.8	2.2	18.2	-18.1	8.2	11.5	6.8	1.3	3.6
Denmark [a]	5.5	8.1	6.8	-2.0	1.5	4.2	1.5	3.9	0.2	-1.2	13.2	9.9	3.7	9.8	4.7
Finland [a]	1.6	6.4	2.6	9.2	11.1	8.9	-0.6	-13.5	0.6	1.3	12.8	7.9	6.3	11.4	8.9
Greece	0.2	12.8	3.8	16.6	8.0	10.6	8.7	6.0	4.9	1.0	4.1	6.2	4.9	5.4	4.9
Iceland	9.1	9.4	0.9	23.3	-4.6	-10.3	1.0	5.7	-8.0	-8.6	4.2	3.8	16.6	8.5	22.1
Ireland	9.9	3.2	5.6	6.2	4.9	13.5	5.1	2.3	7.9	7.2	14.8	15.8	12.2	15.6	20.0
Israel	-1.1	-3.7	11.2	19.6	-2.8	-5.0	9.5	16.0	8.8	14.1	10.9	7.2	8.1	2.8	2.1
Luxembourg	13.9	7.0	3.8	7.5	8.2	6.6	4.5	9.0	-0.8	2.8	-0.1	3.8	1.0	10.0	8.5
Malta	3.9	9.2	0.1	12.3	11.1	11.1	15.7	5.4	3.0	5.9	7.5	10.0	-6.3	-2.4	1.6
Netherlands	5.0	6.3	3.5	4.2	7.6	6.7	4.2	4.1	2.1	-2.1	6.7	7.5	5.3	7.1	6.8
Norway [a]	5.8	8.9	11.8	-6.5	-2.4	2.2	2.5	0.2	0.7	4.4	4.9	5.6	8.0	12.0	9.1
Portugal	-4.4	1.4	16.9	23.1	18.0	6.1	14.0	7.3	10.7	-3.3	9.0	7.8	7.5	10.4	13.3
Spain	-1.8	8.0	14.4	20.1	14.4	17.3	7.8	9.0	6.9	-5.2	11.3	11.0	7.4	12.2	10.6
Sweden	5.4	7.8	4.5	7.7	5.3	7.4	0.7	-4.9	1.1	-2.5	13.2	10.2	3.7	11.7	11.1
Switzerland	8.3	3.7	8.1	6.2	5.2	5.9	2.6	-1.6	-4.2	0.1	7.9	5.1	2.7	8.9	8.8
Turkey	19.7	-6.6	-3.5	23.0	-4.5	6.9	33.1	-5.3	10.9	35.8	-21.9	29.6	20.5	22.4	2.2
North America	23.8	6.7	8.4	6.1	4.7	4.1	3.7	-0.3	7.4	9.0	11.6	8.6	9.0	13.9	10.2
Canada [a]	18.1	8.8	8.5	5.6	13.7	6.3	2.3	3.2	6.2	7.4	8.3	6.2	5.8	14.6	5.8
United States	24.3	6.5	8.4	6.1	3.9	3.9	3.9	-0.7	7.5	9.1	11.9	8.8	9.2	13.9	10.6
Total above	15.2	5.5	6.9	7.6	6.3	6.4	5.7	1.8	5.8	3.7	9.0	8.5	6.8	12.0	8.8
Japan	10.5	-1.4	1.9	9.5	20.9	18.6	7.9	-3.1	-0.7	-0.3	8.9	14.2	11.9	0.5	-7.7
Total above, *including Japan*	14.4	4.4	6.1	7.9	8.6	8.3	6.0	1.0	4.8	3.1	9.0	9.4	7.6	10.2	6.2
Memorandum items:															
European Union [c]	5.9	4.8	5.7	8.8	8.6	9.0	6.6	4.5	4.1	-3.5	7.8	7.6	3.8	9.4	7.5
Euro area	5.3	5.0	5.5	9.0	8.1	9.4	8.1	6.7	3.8	-4.9	8.0	7.9	2.8	8.6	8.1

Source: National statistics.

Note: See appendix table A.1.

a Data correspond to new SNA93 or ESA95 definitions: full period for Canada, Denmark, Finland, Norway and United Kingdom; 1985-1998 for Belgium and France; 1991-1998 for Germany.

b West Germany 1984-1991.

c Fifteen countries.

APPENDIX TABLE A.8

Industrial output in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	2.7	3.6	2.7	2.5	4.4	4.1	2.4	-0.2	-0.9	-2.7	4.5	3.9	0.5	4.1	2.9
4 major countries	1.9	3.6	2.2	1.8	4.8	3.8	2.0	-0.3	-1.3	-3.6	4.6	2.6	-0.2	2.9	2.8
France	0.3	2.1	0.6	1.2	4.6	3.7	1.5	-1.2	-1.2	-3.9	4.0	2.1	0.2	3.8	4.6
Germany [a]	3.0	4.8	1.8	0.4	3.6	4.9	5.2	2.4	-2.3	-7.6	3.6	1.2	0.6	3.5	4.2
Italy	3.3	1.4	4.1	2.6	6.9	3.9	-0.5	-0.9	-1.3	-2.1	6.2	6.1	-2.9	2.7	0.8
United Kingdom	–	5.5	2.5	4.0	4.8	2.1	-0.4	-3.4	0.4	2.2	5.4	1.7	1.1	0.8	0.5
13 smaller countries	4.5	3.5	3.7	4.1	3.5	4.7	3.4	–	–	-0.7	4.1	6.7	2.0	6.9	3.3
Austria	4.9	4.7	1.2	1.0	4.5	5.8	6.8	1.9	-1.2	-1.5	4.0	4.9	0.8	5.6	3.4
Belgium	2.5	2.5	0.8	2.1	5.8	3.4	3.7	-2.0	–	-5.2	1.9	9.0	0.2	12.2	-3.5
Finland	4.8	2.9	1.9	5.0	3.2	3.6	-0.6	-8.7	1.3	5.6	11.3	6.8	3.2	10.0	7.2
Greece	2.3	3.3	-0.3	-1.2	5.0	1.8	-2.4	-1.0	-1.1	-2.9	1.3	1.8	1.2	1.3	7.1
Ireland	9.9	3.4	2.2	8.9	10.7	11.6	4.7	3.3	9.1	5.6	11.9	18.9	8.0	15.3	15.7
Israel	..	..	3.6	4.8	-3.2	-1.6	8.1	6.7	8.2	6.7	7.5	8.4	14.2	16.2	..
Luxembourg	11.7	-1.1	1.9	-0.6	8.7	7.8	2.6	0.3	-0.8	-4.3	5.9	1.4	-1.9	7.2	4.5
Netherlands	5.0	4.8	0.2	1.1	0.1	5.1	2.4	1.8	-0.2	-1.1	4.9	4.8	3.8	2.6	1.1
Norway	6.5	5.7	4.7	6.2	2.8	9.4	2.3	2.6	5.7	3.8	6.9	5.9	5.2	3.5	-0.9
Portugal	2.5	-1.3	7.2	4.4	3.8	6.7	9.0	–	-2.3	-5.2	-0.2	4.7	1.3	2.5	4.0
Spain	0.9	1.8	3.3	4.6	3.1	5.1	-0.3	-0.7	-3.0	-4.7	7.6	4.8	-1.3	6.9	5.5
Sweden	5.6	2.9	0.2	2.8	2.9	2.9	0.3	-5.2	-1.7	-0.4	11.5	9.8	1.0	6.5	4.5
Switzerland	2.6	5.6	3.8	1.2	7.8	1.5	4.8	0.5	-1.0	-1.8	4.3	2.0	–	4.7	3.6
Turkey	11.0	5.9	11.7	10.6	1.6	3.6	9.5	2.7	5.0	8.0	-6.2	12.7	7.5	11.4	1.8
North America	9.3	2.0	1.0	4.6	4.7	1.6	-0.4	-2.2	3.0	3.5	5.5	4.9	4.2	6.0	3.5
Canada	12.6	5.4	-0.6	4.4	6.1	-0.4	-2.8	-3.8	1.1	4.5	6.4	4.7	1.3	5.2	2.4
United States	9.0	1.6	1.2	4.6	4.5	1.8	-0.2	-2.0	3.1	3.5	5.4	4.9	4.5	6.0	3.6
Total above	5.6	2.8	1.9	3.5	4.5	3.0	1.1	-1.1	0.8	0.1	4.9	4.3	2.1	4.9	3.2
Japan	9.3	3.7	-0.2	3.5	10.4	4.8	4.2	1.9	-5.8	-4.4	1.3	3.3	2.3	3.5	-6.4
Total above, *including Japan*	6.4	3.0	1.5	3.5	5.7	3.3	1.7	-0.5	-0.5	-0.8	4.2	4.1	2.2	4.7	1.3
Memorandum items:															
European Union [b]	2.2	3.4	2.2	2.1	4.5	4.1	2.0	-0.4	-1.3	-3.3	5.0	3.5	0.1	3.7	3.0
Euro area	2.6	3.0	2.2	1.8	4.5	4.5	2.5	0.3	-1.6	-4.4	4.8	3.7	-0.1	4.3	3.4

Source: National statistics; OECD, *Main Economic Indicators* (Paris), various issues.

Note: Growth rates of regional aggregates have been calculated as weighted averages of growth rates in individual countries. Weights were derived from GDP originating in industry in 1990. Data were converted from national currency units into dollars using GDP purchasing power parities.

a West Germany 1984-1991.

b Fourteen countries (excluding Denmark).

APPENDIX TABLE A.9

Total employment in the ECE market economies, 1984-1998

(Percentage change over preceding year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	0.6	0.9	1.1	1.3	1.6	1.7	1.6	0.4	-1.3	-1.7	0.1	1.0	0.8	0.3	1.2
4 major countries	0.9	0.7	0.7	0.9	1.6	1.6	1.5	–	-1.6	-1.8	-0.3	0.3	0.3	0.2	0.6
France [a]	-0.9	-0.3	0.4	0.3	0.9	1.3	1.0	-0.1	-0.7	-1.7	-0.3	0.5	-0.2	0.1	1.0
Germany [b]	0.2	0.7	1.4	0.7	0.8	1.5	3.0	2.5	-1.6	-1.5	-0.3	-0.1	-0.8	-0.8	0.4
Italy [a]	0.4	0.9	0.8	0.4	0.9	0.2	0.9	0.8	-1.0	-2.9	-1.4	-0.3	–	-0.2	0.2
United Kingdom [c]	3.8	1.2	0.2	2.1	3.6	3.2	1.0	-3.2	-2.6	-1.3	0.6	1.1	2.4	1.9	0.9
17 smaller countries	0.1	1.2	1.6	1.8	1.6	1.9	1.7	0.9	-0.9	-1.5	0.8	2.0	1.6	0.4	2.1
Austria	-0.1	0.3	0.3	-0.1	0.3	1.4	1.9	1.6	0.4	-0.5	0.1	0.2	-0.5	0.3	0.9
Belgium [c]	-0.2	0.6	0.6	0.6	1.5	1.4	1.0	–	-0.5	-0.9	-0.2	0.5	0.6	0.8	1.1
Cyprus	3.8	3.7	1.1	3.1	4.7	3.9	2.8	0.6	4.1	-0.1	2.8	3.4	1.0	-0.2	..
Denmark	1.7	2.5	2.6	0.9	-0.6	-0.7	-0.7	-0.6	-0.8	-1.5	1.4	1.1	0.8	2.0	1.9
Finland	0.4	0.1	-0.4	0.5	0.6	0.7	-0.5	-5.5	-7.3	-6.3	-1.2	1.7	1.1	2.3	2.2
Greece	0.4	1.0	0.3	-0.1	1.7	0.4	1.3	-2.3	1.3	1.0	1.9	0.9	1.2	-0.5	1.4
Iceland [a]	1.5	3.6	3.2	5.7	-3.0	-1.4	-1.0	-0.1	-1.4	-0.7	0.5	0.8	3.0	1.7	2.1
Ireland [d]	-1.9	-2.2	0.2	-0.1	1.0	-0.1	3.3	0.7	2.7	1.5	3.2	5.0	3.7	3.8	8.3
Israel	1.5	0.7	1.4	2.6	3.5	0.5	2.1	6.1	4.2	6.1	6.9	5.2	2.4	1.4	1.8
Luxembourg	0.6	0.9	2.5	2.7	3.0	3.4	4.2	4.1	2.5	1.8	2.5	2.5	2.8	3.2	4.5
Malta [e]	0.6	1.3	2.1	5.9	2.5	0.9	0.8	2.5	1.0	0.5	1.2	3.8	1.0	0.5	0.4
Netherlands [a]	0.1	1.9	2.1	1.7	1.6	1.9	2.3	1.3	1.0	-0.1	-0.4	1.4	2.0	2.6	2.7
Norway	0.6	2.7	3.0	2.1	-0.8	-2.8	-0.8	-0.8	-0.3	0.2	1.3	2.1	2.5	2.9	2.3
Portugal	-1.0	-0.5	2.7	2.3	2.2	1.9	1.7	2.7	-1.7	-2.0	-0.2	-0.7	0.7	1.9	2.8
Spain	-2.7	1.1	2.2	3.1	2.9	4.0	2.6	0.2	-1.9	-4.3	-0.9	2.7	2.9	3.0	3.4
Sweden	0.8	1.0	0.6	0.8	1.4	1.5	0.9	-1.5	-4.4	-5.2	-1.0	1.5	-0.5	-1.0	1.4
Switzerland	1.0	2.0	2.3	2.5	2.6	2.7	3.2	1.8	-1.5	-0.8	-0.1	0.1	0.3	-0.3	1.2
Turkey	1.5	1.7	1.8	2.3	1.5	2.0	1.8	3.1	0.2	0.2	2.8	3.7	2.0	-2.5	1.5
North America	4.6	2.5	1.8	2.9	3.0	2.5	0.6	-0.8	-0.2	1.8	2.5	2.3	1.8	2.5	2.6
Canada	2.7	3.0	3.0	2.7	3.2	2.1	0.6	-1.9	-0.6	1.3	2.1	1.6	1.3	1.9	2.8
United States [f]	4.8	2.4	1.7	2.9	2.9	2.5	0.6	-0.7	-0.1	1.8	2.5	2.4	1.9	2.6	2.6
Total above	2.2	1.5	1.4	1.9	2.2	2.0	1.2	-0.1	-0.8	-0.2	1.1	1.5	1.3	1.2	1.8
Japan	0.3	0.6	0.5	0.4	1.2	1.5	1.7	2.0	1.1	0.4	0.1	0.2	0.5	1.1	-0.6
Total above, *including Japan*	1.9	1.4	1.2	1.7	2.0	1.9	1.3	0.2	-0.5	-0.1	0.9	1.3	1.1	1.2	1.4
Memorandum items:															
European Union [g]	0.4	0.7	0.9	1.1	1.6	-0.1	1.6	–	-1.5	-2.0	-0.3	0.6	0.6	0.6	1.2
Euro area	-0.4	0.5	1.1	0.9	1.2	1.4	1.8	1.0	-1.2	-2.1	-0.6	0.4	0.2	0.4	1.2

Source: National statistics; OECD, *National Accounts Detailed Tables*, Vol. II, 1998 and *OECD Economic Outlook*, No. 64, December 1998 (Paris); UN/ECE secretariat estimates.

Note: All aggregates exclude Israel. National accounts statistics, where available; otherwise annual labour force surveys. Unless otherwise indicated, the data refer to the annual average number of persons employed, i.e. no adjustment is made for part-time workers. Comparisons with previous years are limited due to changes in methodology: Belgium from 1986 onwards, Denmark and Norway from 1989 onwards, France, Finland and Germany from 1991 onwards because of the shift to SNA93 or ESA95 definitions; Israel (1986 and 1996) and Malta (1995).

[a] Full-time equivalent data.

[b] West Germany 1984-1991.

[c] June.

[d] Mid-April estimates.

[e] End of year.

[f] Full-time equivalent employees plus the number of self-employed persons (unpaid family workers are not included).

[g] Fifteen countries.

APPENDIX TABLE A.10

Standardized unemployment rates [a] in the ECE market economies, 1984-1998

(Per cent of civilian labour force)

	1984	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Western Europe	9.3	9.4	9.4	9.3	8.7	8.1	7.6	8.0	8.9	10.2	10.6	10.1	10.1	10.0	9.3
4 major countries	9.0	9.3	9.3	9.2	8.5	7.9	7.3	7.9	8.8	9.9	10.1	9.8	10.1	10.1	9.6
France	9.7	10.1	10.2	10.4	9.8	9.3	9.0	9.5	10.4	11.7	12.3	11.7	12.4	12.3	11.7
Germany [b]	7.1	7.1	6.4	6.2	6.2	5.6	4.8	5.6	6.6	7.9	8.4	8.2	8.9	9.9	9.4
Italy	8.1	8.5	9.2	9.9	10.0	10.0	9.1	8.8	9.0	10.3	11.4	11.9	12.0	12.0	11.9
United Kingdom	11.1	11.5	11.5	10.6	8.7	7.3	7.1	8.8	10.1	10.5	9.6	8.7	8.2	7.0	6.3
17 smaller countries	9.7	9.6	9.6	9.4	9.0	8.4	7.9	8.2	9.1	10.7	11.2	10.4	10.1	9.7	8.9
Austria	3.8	3.6	3.1	3.8	3.6	3.1	3.2	3.5	3.6	4.0	3.8	3.9	4.4	4.5	4.7
Belgium	11.1	10.4	10.3	10.0	8.9	7.5	6.7	6.6	7.3	8.9	10.0	9.9	9.7	9.4	9.5
Cyprus [c]	3.3	3.3	3.7	3.4	2.8	2.3	1.8	3.0	1.8	2.6	2.7	2.6	3.1	3.4	3.3
Denmark	10.1	9.0	7.8	7.8	6.1	7.4	7.7	8.5	9.2	10.1	8.2	7.3	6.8	5.6	5.1
Finland	5.9	6.1	6.7	4.9	4.4	3.1	3.2	7.1	12.5	16.4	16.8	15.3	14.6	12.7	11.4
Greece	7.2	7.0	6.6	6.7	6.8	6.7	6.4	7.0	7.9	8.6	8.9	9.2	9.6	10.0	9.8
Iceland	1.3	0.9	0.6	0.5	1.2	1.7	1.8	1.5	3.1	4.4	4.8	5.0	4.4	3.9	2.8
Ireland	15.5	16.9	16.8	16.6	16.2	14.7	13.4	14.8	15.4	15.6	14.3	12.3	11.6	9.9	7.8
Israel	5.9	6.7	7.1	6.1	6.4	8.9	9.6	10.6	11.2	10.0	7.8	6.9	6.7	7.7	8.6
Luxembourg	3.1	2.9	2.6	2.5	2.0	1.8	1.7	1.7	2.1	2.7	3.2	2.9	3.0	2.8	2.8
Malta [c]	8.6	8.1	6.9	4.4	4.0	3.7	3.8	3.6	4.0	4.5	4.1	3.8	4.4	5.0	4.9
Netherlands	9.3	8.3	8.3	8.0	7.6	6.9	6.2	5.8	5.6	6.6	7.1	6.9	6.3	5.2	4.0
Norway	3.2	2.7	2.0	2.1	3.2	5.0	5.3	5.6	6.0	6.1	5.5	5.0	4.9	4.1	3.3
Portugal	8.5	8.7	8.4	6.9	5.5	4.9	4.6	4.0	4.2	5.7	7.0	7.3	7.3	6.8	4.9
Spain	20.3	21.7	21.2	20.6	19.5	17.2	16.2	16.4	18.4	22.7	24.1	22.9	22.2	20.8	18.8
Sweden	3.3	2.9	2.7	2.2	1.8	1.6	1.7	3.1	5.6	9.1	9.4	8.8	9.6	9.9	8.3
Switzerland	1.0	0.8	0.7	0.7	0.6	0.5	0.5	1.1	2.5	4.5	4.7	4.2	4.7	5.2	3.8
Turkey	7.6	7.1	7.9	8.3	8.4	8.6	8.0	7.9	8.0	7.7	8.1	6.9	6.0	6.4	6.8
North America	7.9	7.5	7.3	6.5	5.7	5.5	5.9	7.2	7.9	7.4	6.5	6.0	5.8	5.4	4.9
Canada	11.3	10.5	9.6	8.8	7.8	7.5	8.2	10.4	11.3	11.2	10.4	9.5	9.7	9.2	8.3
United States	7.5	7.2	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5
Total above	8.7	8.6	8.5	8.1	7.4	7.0	6.8	7.7	8.5	9.0	8.8	8.3	8.3	8.0	7.4
Japan	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.2	3.4	3.4	4.1
Total above, *including Japan*	7.7	7.6	7.5	7.2	6.6	6.2	6.1	6.8	7.4	7.9	7.9	7.5	7.5	7.2	6.9
Memorandum items:															
European Union [d]	9.8	10.0	9.9	9.7	9.1	8.3	7.7	8.2	9.2	10.7	11.1	10.7	10.8	10.6	9.9
Euro area	9.8	10.1	10.0	10.0	9.6	8.9	8.2	8.3	9.2	10.9	11.6	11.4	11.6	11.6	10.9

Source: National statistics; OECD, *Quarterly Labour Force Statistics*, No. 4, 1998, *Main Economic Indicators*, various issues and *OECD Economic Outlook*, No. 64, December 1998 (Paris); UN/ECE secretariat estimates.

Note: All aggregates exclude Israel. Comparisons with previous years are limited by changes in methodology in Austria (1994), Germany (1984), Israel (1985 and 1995), Italy (1993), Malta (1994), Portugal (1992) and the United States (1990 and 1994).

a ILO definition, except for Austria (1984-1992), Cyprus, Denmark (1984-1987), Iceland, Israel, Malta, Switzerland and Turkey.

b West Germany 1984-1990.

c End of year.

d Fifteen countries.

APPENDIX TABLE A.11

Consumer prices in the ECE market economies, 1984-1998
(Percentage change over previous year)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	6.7	5.8	3.5	3.2	3.5	5.0	5.4	5.0	4.3	3.5	2.9	3.0	2.3	1.9	1.6
4 major countries	6.0	5.4	2.7	2.8	3.2	4.9	5.0	4.7	4.2	3.2	2.7	3.0	2.4	1.9	1.6
France	7.4	5.8	2.7	3.1	2.7	3.6	3.3	3.2	2.4	2.1	1.7	1.7	2.0	1.2	0.7
Germany[a]	2.3	2.2	-0.2	0.3	1.2	2.8	2.7	3.6	5.1	4.5	2.7	1.8	1.5	1.8	0.9
Italy	10.6	8.6	6.1	4.6	5.0	6.6	6.1	6.5	5.3	4.2	3.9	5.4	3.9	1.7	1.8
United Kingdom	5.0	6.1	3.4	4.1	4.9	7.8	9.5	5.9	3.7	1.6	2.4	3.5	2.4	3.1	3.4
16 smaller countries	8.4	6.8	5.2	4.0	4.1	5.3	6.2	5.8	4.5	4.0	3.3	3.0	2.3	1.8	1.5
Austria	5.6	3.2	1.7	1.4	2.0	2.5	3.2	3.4	4.0	3.7	3.0	2.2	1.9	1.3	0.9
Belgium	6.4	4.9	1.3	1.5	1.1	3.2	3.4	3.2	2.4	2.8	2.4	1.5	2.0	1.6	1.0
Cyprus	6.0	5.1	1.2	2.8	3.4	3.8	4.5	5.0	6.5	4.9	4.7	2.6	2.9	3.6	2.2
Denmark	6.3	4.7	3.6	4.0	4.6	4.8	2.7	2.4	2.1	1.3	2.0	2.1	2.0	2.2	1.9
Finland	7.1	5.9	2.9	4.1	5.1	6.6	6.2	4.3	3.0	2.1	1.1	1.0	0.5	1.2	1.4
Greece	18.4	19.3	23.0	16.4	13.5	13.7	20.4	19.5	15.9	14.4	10.7	8.8	8.3	5.5	4.8
Iceland	29.2	32.6	22.7	18.8	19.1	20.8	15.4	6.8	3.7	4.1	1.5	1.7	2.3	1.8	1.7
Ireland	8.6	5.5	3.8	3.1	2.1	4.1	3.3	3.2	3.1	1.4	2.3	2.5	1.7	1.4	2.4
Israel	373.8	304.6	48.1	19.9	16.3	20.2	17.2	19.0	12.0	11.0	12.3	10.1	11.3	9.0	5.4
Luxembourg	6.4	4.1	0.3	-0.1	1.4	3.4	3.3	3.1	3.2	3.6	2.2	1.9	1.3	1.4	1.0
Malta	-0.4	-0.3	2.0	0.5	0.9	0.9	3.0	2.5	1.6	4.1	4.1	4.0	2.5	3.2	2.2
Netherlands	3.1	2.3	0.2	-0.8	0.7	1.1	2.5	3.1	3.2	2.6	2.7	2.0	2.0	2.2	2.0
Norway	6.2	5.7	7.2	8.7	6.7	4.6	4.1	3.4	2.3	2.3	1.4	2.4	1.3	2.6	2.3
Portugal	28.9	19.6	11.8	9.4	9.7	12.6	13.4	10.5	9.4	6.7	5.4	4.2	3.1	2.3	2.8
Spain	11.3	8.8	8.8	5.2	4.8	6.9	6.7	5.9	5.9	4.6	4.8	4.6	3.6	2.0	1.8
Sweden	8.0	7.4	4.2	4.2	5.8	6.5	10.4	9.4	2.2	4.7	2.2	2.5	0.5	0.5	-0.1
Switzerland	2.9	3.5	0.8	1.4	1.9	3.1	5.4	5.9	4.0	3.3	0.9	1.8	0.8	0.5	0.1
Turkey	48.3	45.0	34.6	38.8	68.8	63.3	60.3	66.0	70.1	66.1	105.2	88.0	79.8	84.8	86.2
North America	4.3	3.6	2.1	3.7	4.1	4.8	5.4	4.3	2.9	2.9	2.4	2.8	2.8	2.2	1.5
Canada	4.3	4.0	4.1	4.4	4.0	5.0	4.8	5.6	1.5	1.8	0.2	2.2	1.6	1.6	0.9
United States	4.3	3.6	1.9	3.6	4.1	4.8	5.4	4.2	3.0	3.0	2.6	2.8	3.0	2.3	1.6
Total above	5.6	4.7	2.8	3.4	3.8	4.9	5.4	4.7	3.6	3.2	2.6	2.9	2.6	2.1	1.5
Japan	2.3	2.0	0.7	–	0.7	2.4	3.1	3.2	1.7	1.3	0.7	-0.1	0.1	1.8	0.6
Total above, *including Japan*	5.0	4.3	2.4	2.8	3.3	4.5	5.0	4.4	3.3	2.9	2.3	2.4	2.2	2.0	1.4
Memorandum items:															
European Union[b]	6.9	5.9	3.5	3.1	3.5	5.1	5.4	5.0	4.3	3.5	2.9	3.0	2.4	1.9	1.6
Euro area	7.0	5.5	3.1	2.6	2.9	4.4	4.2	4.4	4.4	3.6	2.9	2.9	2.4	1.7	1.3

Source: National statistics.

Note: All aggregates exclude Israel and Turkey.

[a] West Germany 1984-1991.

[b] Fifteen countries.

APPENDIX TABLE B.1

Real GDP/NMP in the ECE transition economies, 1980, 1985-1998
(Indices, 1989=100)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	88.7	94.8	97.8	99.4	100.8	100.0	93.2	82.9	78.9	78.7	81.9	86.7	90.0	92.0	93.4
Albania	79.4	88.2	93.1	92.4	91.0	100.0	90.0	64.8	60.1	65.9	71.4	80.9	88.2	82.0	88.6
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bulgaria	76.2	89.9	93.6	99.3	101.9	100.0	90.9	83.3	77.2	76.1	77.5	79.7	71.6	66.6	69.0
Croatia [a]	99.0	99.8	102.6	102.5	101.6	100.0	92.9	73.3	64.7	59.5	63.0	67.3	71.4	76.0	78.1
Czech Republic	..	91.3	93.2	93.7	95.7	100.0	98.8	87.4	84.6	85.0	87.8	93.4	97.0	98.0	95.3
Hungary	86.3	94.1	95.5	99.4	99.3	100.0	96.5	85.0	82.4	81.9	84.4	85.6	86.8	90.7	95.3
Poland	91.1	90.3	94.1	95.9	99.8	100.0	88.4	82.2	84.4	87.6	92.1	98.6	104.5	111.7	117.1
Romania	88.5	103.4	105.8	106.7	106.2	100.0	94.4	82.2	75.0	76.2	79.2	84.8	88.2	82.1	76.1
Slovakia	..	91.0	94.8	97.1	99.0	100.0	97.5	83.3	77.9	75.1	78.7	84.2	89.7	95.6	99.8
Slovenia	98.9	100.9	104.1	103.5	100.5	100.0	91.9	83.7	79.1	81.4	85.7	89.3	92.4	96.6	100.4
The former Yugoslav Republic of Macedonia	93.3	96.0	102.7	101.4	98.1	100.0	89.8	83.5	76.8	69.9	68.6	67.8	68.3	69.3	71.4
Yugoslavia [a]	95.7	98.7	101.4	100.2	98.8	100.0	92.1	81.4	58.7	40.6	41.7	44.2	46.8	50.3	51.6
Baltic states	67.8	81.4	85.6	89.0	96.0	100.0	97.8	89.9	67.9	58.2	55.2	56.4	58.8	63.7	66.5
Estonia	74.5	85.7	88.2	89.2	93.8	100.0	91.9	82.7	71.0	65.0	63.7	66.4	69.0	76.3	79.4
Latvia	68.5	81.3	85.1	89.0	93.6	100.0	102.9	92.2	60.1	51.1	51.5	51.0	52.7	57.3	59.3
Lithuania	64.7	79.8	84.9	88.9	98.4	100.0	96.7	91.2	71.8	60.2	54.3	56.1	58.7	63.0	66.2
CIS [b c]	77.5	90.4	92.4	93.9	98.1	100.0	96.8	90.9	78.0	70.4	60.3	56.9	55.0	55.5	54.0
Armenia	73.5	95.9	97.7	94.5	92.2	100.0	94.5	83.4	48.6	44.3	46.7	49.9	52.8	54.5	58.4
Azerbaijan	79.6	98.8	100.6	105.1	109.7	100.0	88.3	87.7	67.9	52.2	41.9	37.0	37.4	39.6	43.6
Belarus	65.7	85.2	88.9	91.3	92.4	100.0	98.0	96.8	87.5	80.8	70.6	63.3	65.1	72.5	78.5
Georgia	79.4	100.0	98.8	96.8	103.6	100.0	84.9	67.0	36.9	26.1	23.4	24.0	26.6	29.6	30.5
Kazakhstan	87.0	90.8	92.3	92.1	100.1	100.0	99.0	88.1	83.4	75.8	66.2	60.8	61.1	62.1	60.6
Kyrgyzstan	69.1	82.9	83.6	84.7	95.6	100.0	104.8	96.5	83.2	70.3	56.2	53.1	56.9	62.5	63.7
Republic of Moldova	72.1	82.6	89.2	90.3	91.9	100.0	97.6	80.5	57.2	56.5	39.0	38.3	35.3	35.9	32.8
Russian Federation	78.1	90.7	92.9	94.2	98.4	100.0	97.0	92.2	78.8	71.9	62.8	60.2	58.1	58.6	55.9
Tajikistan	80.8	91.8	95.0	93.9	106.9	100.0	100.2	91.7	62.1	52.0	40.9	35.8	29.8	30.3	32.0
Turkmenistan	80.7	89.5	93.4	97.1	107.5	100.0	101.8	97.0	82.5	83.7	69.2	64.2	68.5	60.7	63.8
Ukraine	75.0	88.7	90.0	93.4	95.2	100.0	96.4	88.0	79.2	68.0	52.4	46.0	41.4	40.1	39.4
Uzbekistan	76.0	88.1	88.0	88.4	97.0	100.0	99.2	98.7	87.7	85.7	81.2	80.5	81.9	86.1	89.9
Total above	80.3	91.4	93.7	95.2	98.7	100.0	95.9	88.8	78.0	72.3	65.9	64.7	64.2	65.3	64.5
Memorandum items:															
CETE-5	88.6	92.2	95.1	97.3	99.6	100.0	93.3	84.1	83.2	84.6	88.2	93.3	97.7	102.6	105.8
SETE-7	88.8	99.3	102.4	103.1	102.9	100.0	93.1	80.7	71.4	68.4	70.8	75.2	76.6	73.6	71.7
Czechoslovakia [b]	84.9	92.7	95.1	97.0	99.3	100.0	98.5	84.4	78.8	..	..	..	..	..	..
Yugoslavia (SFR) [a]	97.7	99.5	103.0	101.0	99.4	100.0	92.4	..	..	..	..	..	..	..	..
Former Soviet Union [b]	77.3	90.1	92.2	93.8	98.0	100.0	96.8	90.8	77.7	70.1	60.2	56.9	55.1	55.8	54.3
Former GDR	..	..	..	..	..	100.0	84.5	68.3	73.6	80.4	88.2	92.0	95.0	96.6	98.5

Source: UN/ECE Common Database, derived from national and CIS statistics (IMF and World Bank data for Albania).

Note: Data for the east European countries are based on a GDP measure, except where otherwise mentioned. For the countries of the former Soviet Union, NMP data for 1980-1990 were chain-linked to GDP data from 1990. Country indices were aggregated with previous year PPP-based weights obtained from the European Comparison Programme for 1996.

a Gross material product (1980-1989 for Croatia).

b Sum of individual country data for former members.

c Net material product for 1980-1990 (until 1992 in the case of Turkmenistan).

APPENDIX TABLE B.2

Real total consumption expenditure in the ECE transition economies, 1980, 1985-1998

(Indices, 1989=100 or earliest year available thereafter)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bulgaria	..	..	..	..	..	100.0	100.6	92.3	89.4	86.2	82.3	80.7	75.3	64.0	..
Croatia	..	..	..	..	..	..	..	100.0	87.2	85.3	92.0	106.6	109.2	..	..
Czech Republic	..	..	..	91.3	93.1	100.0	104.9	81.0	88.2	90.4	92.6	96.5	102.5	103.2	101.7
Hungary	92.2	99.2	101.5	104.9	102.0	100.0	97.3	92.2	92.8	97.9	95.6	89.3	86.6	88.6	..
Poland	108.0	105.1	109.3	111.8	114.7	100.0	88.3	94.9	98.2	103.0	106.9	110.4	118.4	125.6	..
Romania	83.9	85.4	85.8	88.7	90.6	100.0	108.9	96.0	90.7	91.8	95.3	105.5	112.9	108.0	104.1
Slovakia	..	81.8	85.4	89.2	92.1	100.0	103.3	76.9	75.6	74.3	71.6	73.9	82.0	85.5	88.5
Slovenia	..	..	..	..	..	..	100.0	91.6	88.8	99.1	102.6	110.2	113.1	117.2	..
Estonia	..	..	..	..	..	..	..	..	..	100.0	101.2	110.4	116.5	124.4	131.9
Latvia	..	..	..	..	..	..	100.0	76.7	49.2	46.5	47.4	47.0	50.8	52.7	..
Lithuania	..	..	..	..	..	..	..	..	..	..	..	100.0	102.6	112.3	..
Armenia	..	..	..	..	..	..	100.0	97.4	84.9	66.4	68.9	74.5	76.8	81.5	..
Azerbaijan	..	..	..	..	..	..	..	..	..	100.0	80.3	78.0	84.3	93.2	..
Belarus	..	..	..	..	..	..	100.0	93.4	84.0	82.1	72.1	65.3	67.4	73.8	..
Georgia	..	..	..	..	..	..	100.0	79.2	77.1	45.4	42.4	46.1	..	..	..
Kazakhstan	..	..	..	..	..	..	100.0	96.8	96.1	84.9	67.7	55.1	51.2	51.8	..
Kyrgyzstan	..	..	..	..	..	..	..	100.0	87.2	77.1	62.0	52.0	55.3	50.8	50.4
Republic of Moldova	..	..	..	..	..	..	..	..	..	100.0	82.6	90.3	99.8	111.6	105.3
Russian Federation	..	..	..	..	..	..	100.0	93.9	89.0	88.1	85.4	83.1	81.3	82.7	80.6
Ukraine	..	..	..	..	..	..	100.0	94.3	88.6	72.0	65.0	62.6	57.4	59.3	..

Source: UN/ECE Common Database, derived from national and CIS statistics.

APPENDIX TABLE B.3

Real gross fixed capital formation in the ECE transition economies, 1980, 1985-1998

(Indices, 1989=100 or earliest year available thereafter)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bulgaria	..	..	..	..	..	100.0	100.0	80.0	74.1	61.2	61.9	71.8	56.6	44.1	..
Croatia	..	..	..	..	..	..	..	100.0	88.5	94.5	93.6	108.2	..	..	..
Czech Republic	..	..	..	93.4	99.4	100.0	97.9	80.5	87.7	81.0	95.0	114.9	124.9	118.8	114.4
Hungary	114.7	94.6	100.8	110.7	100.6	100.0	92.9	83.1	81.0	82.6	92.9	88.9	94.8	103.6	115.4
Poland	124.6	111.4	116.4	116.5	126.5	100.0	75.2	71.9	73.6	75.7	82.6	96.2	115.2	140.1	..
Romania	163.7	161.5	163.3	161.0	157.6	100.0	64.4	44.0	48.9	52.9	63.9	68.3	72.2	70.1	57.4
Slovakia	..	..	..	..	..	..	100.0	74.8	71.5	68.5	64.7	64.6	90.3	103.3	114.7
Slovenia	..	..	..	..	..	..	100.0	88.5	77.1	85.4	97.4	113.8	124.2	138.3	..
Estonia	..	..	..	..	..	..	..	..	..	100.0	106.2	110.5	123.1	144.6	156.3
Latvia	..	..	..	..	..	..	100.0	36.1	25.7	21.6	21.8	23.7	29.0	32.2	..
Lithuania	..	..	..	..	..	..	..	..	..	..	..	100.0	110.9	137.0	..
Armenia	..	..	..	..	..	..	100.0	67.0	8.6	7.9	11.5	9.5	10.5	11.7	..
Azerbaijan	..	..	..	..	..	..	..	..	100.0	61.0	115.3	94.5	199.8	333.7	..
Belarus	..	..	..	..	..	..	100.0	105.3	85.6	79.1	68.3	48.1	46.6	57.4	..
Georgia	..	..	..	..	..	..	100.0	67.3	49.2	18.5	133.4	219.9	..	..	..
Kazakhstan	..	..	..	..	..	..	100.0	74.2	61.9	44.2	39.2	24.3	18.5	19.1	..
Kyrgyzstan	..	..	..	..	..	..	..	100.0	70.7	55.3	39.3	63.2	54.9	38.7	33.1
Republic of Moldova	..	..	..	..	..	..	..	..	..	100.0	56.5	54.5	68.1	64.9	64.8
Russian Federation	..	..	..	..	..	..	100.0	84.5	49.4	36.7	27.1	25.1	20.9	19.9	18.5
Ukraine	..	..	..	..	..	..	100.0	81.6	69.3	48.2	28.4	19.7	15.2	14.2	..

Source: UN/ECE Common Database, derived from national and CIS statistics.

APPENDIX TABLE B.4

Real gross industrial output in the ECE transition economies, 1980, 1985-1998

(Indices, 1989=100)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	82.8	92.2	96.0	98.5	100.6	100.0	85.9	70.1	62.8	61.3	65.3	70.2	73.8	77.4	78.5
Albania	77.0	87.5	91.9	93.3	95.2	100.0	86.7	50.4	35.2	31.7	25.8	23.9	27.2	25.7	28.2
Bosnia and Herzegovina	106.0	104.1	104.1	101.1	98.1	100.0	101.8	76.9	25.5	2.0	1.7	2.8	5.2	7.0	8.7
Bulgaria	71.3	88.3	92.4	98.0	101.1	100.0	83.2	66.4	54.2	48.8	54.0	56.4	58.2	52.6	47.6
Croatia	88.7	95.1	99.4	102.0	100.6	100.0	88.7	63.4	54.2	51.0	49.6	49.7	51.3	54.8	56.8
Czech Republic	81.5	92.0	94.5	96.5	98.5	100.0	96.6	75.7	69.8	66.1	67.4	73.3	74.8	78.1	79.4
Hungary	92.9	102.1	104.0	106.4	105.3	100.0	90.7	74.1	66.9	69.6	76.3	79.8	82.5	91.7	103.2
Poland	86.3	88.5	92.3	95.5	100.5	100.0	75.8	69.7	71.7	76.3	85.5	93.8	101.6	113.3	118.6
Romania	76.9	90.5	96.8	99.2	101.9	100.0	81.9	63.3	49.4	50.1	51.7	56.6	60.1	55.8	46.3
Slovakia	76.7	91.6	95.2	98.6	100.8	100.0	94.0	73.1	66.1	62.5	66.8	72.3	74.1	75.3	79.1
Slovenia	90.3	101.0	102.7	101.6	98.9	100.0	89.5	78.4	68.1	66.1	70.4	71.8	72.5	73.2	75.9
The former Yugoslav Republic of Macedonia	72.1	88.6	95.0	97.3	95.6	100.0	89.4	74.0	62.3	53.7	48.0	42.9	44.3	45.0	47.0
Yugoslavia	80.0	93.6	96.8	97.6	98.4	100.0	88.0	72.5	57.0	35.7	36.2	37.6	40.4	44.2	45.8
Baltic states	72.1	84.8	88.9	92.7	96.6	100.0	98.6	95.1	64.7	44.4	36.3	37.1	38.9	42.2	44.0
Estonia	78.5	90.2	93.5	96.3	99.3	100.0	100.0	92.8	59.8	48.6	47.1	48.0	49.7	57.3	57.5
Latvia	72.5	86.6	89.9	93.7	97.1	100.0	100.8	100.2	65.6	44.6	40.1	38.7	40.8	46.4	47.3
Lithuania	70.0	82.6	87.2	91.2	95.6	100.0	97.4	94.0	65.8	43.2	31.7	33.4	35.0	36.2	38.7
CIS [a]	73.4	87.3	91.2	94.5	98.2	100.0	99.9	93.2	78.4	68.6	53.8	50.9	49.1	50.4	48.8
Armenia	76.3	100.7	105.3	110.3	109.1	100.0	92.5	85.4	44.2	39.7	41.8	42.4	43.0	43.4	42.3
Azerbaijan	76.1	94.5	92.7	96.1	99.3	100.0	93.7	98.2	74.9	69.7	53.9	44.6	41.6	41.7	42.7
Belarus	61.1	79.0	84.3	89.9	95.6	100.0	102.1	101.1	91.6	82.4	68.3	60.3	62.4	74.2	82.3
Georgia	70.6	91.8	93.9	96.2	99.3	100.0	94.3	73.0	39.6	25.0	15.2	13.2	14.1	15.2	14.8
Kazakhstan	72.4	85.8	90.2	94.1	97.6	100.0	99.2	98.3	84.7	72.2	51.9	47.7	47.8	49.7	48.7
Kyrgyzstan	66.7	84.2	87.8	89.0	95.1	100.0	99.4	99.1	72.9	54.5	39.2	32.2	35.1	52.8	55.2
Republic of Moldova [b]	68.7	85.1	87.3	91.6	94.6	100.0	103.2	91.7	66.9	67.1	48.5	46.6	43.6	43.6	38.8
Russian Federation	74.4	87.8	91.8	95.0	98.6	100.0	99.9	91.9	75.4	64.7	51.2	49.5	47.5	48.5	46.0
Tajikistan	72.9	87.1	88.7	93.1	98.2	100.0	101.2	97.6	73.9	68.1	50.8	43.9	33.4	32.7	35.4
Turkmenistan	75.4	86.0	90.1	92.9	96.9	100.0	103.2	108.2	92.0	95.7	72.1	67.5	80.8	54.7	54.8
Ukraine	72.6	86.4	90.0	93.4	97.3	100.0	99.9	95.1	89.0	81.9	59.5	52.4	49.7	49.6	48.8
Uzbekistan	68.5	86.0	91.2	93.4	96.5	100.0	101.8	103.3	96.4	99.9	101.5	101.6	104.2	108.5	114.8
Total above	76.5	88.9	92.8	95.8	99.0	100.0	95.2	85.5	72.8	65.6	57.2	57.0	57.2	59.3	58.7
Memorandum items:															
CETE-5	85.4	92.8	95.8	98.3	100.7	100.0	87.0	73.1	69.6	70.3	76.0	82.2	86.3	93.5	98.2
SETE-7	78.6	91.4	96.3	98.8	100.6	100.0	84.1	65.4	52.0	47.0	48.3	51.1	54.0	51.9	47.1
Czechoslovakia	80.5	91.9	94.8	97.2	99.2	100.0	96.5	75.2	67.6	..	..	..	..	..	..
Yugoslavia (SFR) [a]	86.9	96.4	99.3	99.7	98.7	100.0	88.3	71.7	..	..	..	..	..	..	..
Former Soviet Union	73.4	87.2	91.1	94.5	98.2	100.0	99.8	93.3	77.9	67.7	53.1	50.4	48.8	50.1	48.7
Former GDR	75.2	89.5	92.5	94.7	97.7	100.0	72.7	37.0	34.8	36.8	42.0	44.4	45.9	48.5	52.2

Source: UN/ECE Common Database, derived from national and CIS statistics (IMF and World Bank data for Albania).

Note: Data for former Czechoslovakia and the SFR of Yugoslavia for 1980 to the breakup obtained as sum of individual country data for former members. For the countries of the former Soviet Union, data for 1980-1990 were chain-linked to national or CIS data from 1990. Country indices were aggregated with previous year PPP-based weights on the basis of data obtained from the European Comparison Programme for 1996.

[a] Generated from components.

[b] Excluding Transdniestria since 1993.

APPENDIX TABLE B.5

Total employment in the ECE transition economies, 1980, 1985-1998

(Indices, 1989=100)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	94.7	96.6	97.4	98.0	97.9	100.0	97.0	90.7	85.0	82.3	82.3	81.9	82.5	82.7	..
Albania	77.9	90.1	93.1	95.9	97.6	100.0	99.2	97.5	76.0	72.7	80.7	79.0	77.5	76.9	76.6
Bosnia and Herzegovina	..	..	..	..	..	100.0	94.6	58.1	22.1	9.9	9.1	10.1	22.5	34.4	36.4
Bulgaria	100.0	102.2	102.5	102.8	102.4	100.0	93.9	81.6	75.0	73.8	74.3	75.2	75.3	72.3	71.2
Croatia	87.4	95.9	98.6	100.6	100.4	100.0	96.9	88.5	77.9	76.5	74.8	73.9	73.9	73.4	..
Czech Republic	95.3	97.5	98.5	98.9	99.4	100.0	99.1	93.6	91.2	89.7	90.4	92.8	93.4	92.4	90.2
Hungary[a]	104.2	102.6	102.6	101.7	100.7	100.0	96.7	86.8	77.0	72.1	70.6	69.3	69.0	69.1	70.3
Poland	102.0	100.8	101.1	100.8	100.1	100.0	95.8	90.1	86.3	84.3	85.1	86.7	88.3	90.8	91.1
Romania[b]	94.6	96.7	97.5	97.9	98.7	100.0	99.0	98.5	95.5	91.9	91.5	86.7	85.7	82.4	..
Slovakia[a]	91.3	96.8	98.4	99.4	100.2	100.0	98.2	85.9	80.4	80.4	78.9	80.7	81.3	81.5	81.2
Slovenia[c]	84.0	88.9	90.4	101.9	101.3	100.0	96.1	88.7	83.8	81.3	79.3	79.1	78.7	78.6	78.7
The former Yugoslav Republic of Macedonia	79.1	92.7	96.0	100.5	100.1	100.0	98.5	95.6	91.2	86.2	81.7	73.9	70.6	66.8	65.0
Yugoslavia	83.4	93.7	96.5	99.0	99.8	100.0	97.0	94.1	90.9	88.3	86.5	85.3	84.8	89.9	89.7
Baltic states[d]	94.9	98.0	98.8	99.4	99.6	100.0	98.5	98.9	94.4	89.0	83.2	80.6	80.1	80.9	65.1
Estonia	..	96.7	97.9	97.6	97.6	100.0	98.6	96.4	91.4	84.5	82.7	78.3	77.0	77.4	..
Latvia	97.0	99.1	99.8	100.4	100.5	100.0	100.1	99.3	92.0	85.6	77.0	74.3	72.3	73.7	74.1
Lithuania	93.4	97.7	98.5	99.5	99.8	100.0	97.3	99.7	97.5	93.4	88.0	86.4	87.2	87.7	87.0
CIS	94.3	97.8	98.3	98.9	99.3	100.0	100.2	98.9	96.5	94.1	91.3	90.4	89.6	88.3	..
Armenia	86.6	97.2	98.6	99.5	101.4	100.0	102.4	105.0	99.2	97.0	93.5	92.8	90.2	86.2	84.9
Azerbaijan	79.8	90.9	92.7	95.2	95.8	100.0	100.9	105.8	101.4	101.2	99.0	98.5	100.5	100.7	101.1
Belarus	95.4	98.4	98.8	99.0	99.5	100.0	99.1	96.6	94.1	92.9	90.4	84.8	84.0	84.1	84.5
Georgia	92.7	98.8	100.1	101.0	101.1	100.0	102.3	93.3	73.5	66.4	64.8	79.0	79.1	82.7	83.3
Kazakhstan	86.2	92.6	93.5	94.7	96.0	100.0	101.3	100.1	98.3	89.9	85.4	85.0	84.6	84.0	81.8
Kyrgyzstan	81.9	92.8	95.0	97.9	98.7	100.0	100.5	99.6	105.6	96.6	94.6	94.4	95.0	97.1	97.5
Republic of Moldova[e]	97.3	99.5	99.6	99.7	98.9	100.0	99.1	99.0	98.0	80.7	80.4	80.0	79.4	78.7	77.7
Russian Federation	96.9	99.1	99.5	99.7	99.9	100.0	99.6	97.7	95.3	93.7	90.6	87.9	87.2	85.5	84.1
Tajikistan	76.7	89.5	91.2	94.5	96.9	100.0	103.2	104.9	101.6	98.8	98.8	98.7	92.2	95.3	95.8
Turkmenistan	76.4	89.7	91.7	94.3	96.8	100.0	103.4	105.3	105.4	110.0	111.6	112.1	111.7	112.3	..
Ukraine	99.6	100.6	100.5	100.3	99.9	100.0	99.9	98.3	96.3	94.1	90.5	93.3	91.3	88.8	87.7
Uzbekistan	75.4	86.8	88.9	93.2	95.9	100.0	104.2	109.2	108.7	108.5	109.9	110.8	112.3	113.8	115.4
Total above	94.0	97.5	98.1	98.7	98.9	100.0	99.3	96.7	93.3	90.7	88.6	87.8	87.4	86.6	..
Memorandum items:															
CETE-5	99.8	99.9	100.4	100.6	100.1	100.0	96.7	89.8	85.1	82.8	82.9	84.1	85.1	86.3	86.3
SETE-7	87.8	92.2	93.4	94.4	94.9	100.0	97.4	92.0	85.0	81.7	81.5	79.0	78.9	77.8	..
Former Soviet Union	93.7	97.8	98.3	98.9	99.3	100.0	100.2	98.9	96.4	94.0	91.1	90.1	89.3	88.1	..

Source: UN/ECE Common Database, derived from national and CIS statistics.

a End of year, up to 1992, since 1992 onwards annual average.

b End of year.

c Self-employed excluded until 1987.

d Excluding Estonia until 1985.

e Excluding Transdniestria since 1993.

APPENDIX TABLE B.6

Registered unemployment in the ECE transition economies, 1990, 1994-1998

(Thousands and per cent of labour force, end of period)

	Thousands						Per cent of labour force					
	1990	*1994*	*1995*	*1996*	*1997*	*1998*	*1990*	*1994*	*1995*	*1996*	*1997*	*1998*
Eastern Europe	2 773	7 190	6 583	6 300	6 196	..	..	13.6	12.5	11.7	11.9	12.6
Albania	150	262	171	158	194	235	9.5	18.0	12.9	12.3	14.9	17.6
Bosnia and Herzegovina	..	..	..	185	222	257	..	..	..	..	39*	38*
Bulgaria	72	488	424	478	524	465	1.8	12.8	11.1	12.5	13.7	12.2
Croatia	196	248	249	269	287	303	..	17.3	17.6	15.9	17.6	18.6
Czech Republic	39	167	153	186	269	387	0.7	3.2	2.9	3.5	5.2	7.5
Hungary	101	520	496	479	464	404	1.7	10.9	10.4	10.5	10.4	9.1
Poland	1 126	2 838	2 629	2 360	1 826	1 831	6.5	16.0	14.9	13.2	10.3	10.4
Romania	150	1 224	998	658	881	1025	1.3	10.9	9.5	6.6	8.8	10.3
Slovakia	40	372	330	330	348	427	1.6	14.8	13.1	12.8	12.5	15.6
Slovenia	55	124	127	125	129	127	..	14.2	14.5	14.4	14.8	14.6
The former Yugoslav Republic of Macedonia [a]	156	196	229	245	258	..	..	33.2	37.2	39.8	42*	..
Yugoslavia [a]	688	751	777	827	794	849	..	23.9	24.7	26.1	25.6	27.2
Baltic states	..	197	245	237	236	269	..	5.3	6.6	6.4	6.3	7.3
Estonia [b]	..	35	34	37	31	35	..	5.1	5.0	5.6	4.6	5.1
Latvia	..	84	83	91	85	111	..	6.5	6.6	7.2	6.7	9.2
Lithuania	..	78	128	109	120	123	..	4.5	7.3	6.2	6.7	6.9
CIS	..	6 011	7 185	8 519	9 673	11 579	..	4.4	5.8	6.6	7.6	9.0
Armenia	..	92	132	159	174	134	..	6.0	8.1	9.7	11.0	8.9
Azerbaijan	..	24	28	32	38	42	..	0.9	1.1	1.1	1.3	1.4
Belarus	..	101	131	183	126	106	..	2.1	2.7	4	2.8	2.3
Georgia	..	76	61	58	143	99	..	3.8	3.4	3.2	8.0	4.2
Kazakhstan	..	70	140	282	259	252	..	1.0	2.1	4.1	3.9	3.7
Kyrgyzstan	..	13	50	77	55	56	..	0.8	3.0	4.5	3.1	3.1
Republic of Moldova	..	21	25	23	28	32	..	1.0	1.4	1.5	1.7	1.9
Russian Federation [c]	..	5 478	6 431	7280	8 133	9 728	..	7.5	8.9	10.0	11.2	13.3
Tajikistan	..	32	35	46	51	54	..	1.8	1.8	2.4	2.8	2.9
Turkmenistan	..	..	..	..	..	..	..	..	..	..	..	..
Ukraine	..	82	127	351	637	1 003	..	0.3	0.6	1.5	2.8	4.3
Uzbekistan	..	22	25	28	29	33	..	0.3	0.3	0.3	0.3	0.4
Total above	..	13 398	14 013	15 056	16 105	..	..	..	..	..	..	..
Memorandum items:												
CETE-5	1 361	4 021	3 735	3 480	3 036	3 176	..	12.9	12.0	11.2	9.8	10.2
SETE-7	1 412	3 169	2 848	2 635	2 936	..	..	14.6	13.7	12.5	14.3	15.4
Russian Federation [d]	..	1 637	2 327	2 506	1 999	1 929	..	2.1	3.2	3.4	2.8	2.7

Source: National statistics and direct communications from national statistical offices to UN/ECE secretariat.

a The data reported on employment cover only the social sector in agriculture, hence unemployment rates are biased upwards. In Yugoslavia, according to the labour force survey, the unemployment rate was 13.7 per cent in October 1998, instead of the officially reported rate of some 27 per cent. Also, in The former Yugoslav Republic of Macedonia, according to the labour force survey, the unemployment rate was 34.5 per cent in April 1998 instead of reported estimates of some 40 per cent.

b Job seekers.

c Based on Russian Federation Goskomstat's monthly estimates according to the ILO definition, i.e. including all persons not having employment but actively seeking work.

d Registered unemployment.

APPENDIX TABLE B.7

Consumer prices in the ECE transition economies, 1989-1998

(Annual average, percentage change over preceding year)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Albania	..	..	35.5	193.1	85.0	21.5	8.0	12.7	33.1	20.3
Bosnia and Herzegovina	36.8	594.0	116.2	64 218.3	38 825.1	553.5	-12.1	-21.2	11.8	4.9
Bulgaria	6.4	23.8	338.5	91.3	72.9	96.2	62.1	123.1	1 082.6	22.2
Croatia [a]	1 200.0	609.5	123.0	663.6	1 516.6	97.5	2.0	3.6	3.7	5.9
Czech Republic	1.4	9.9	56.7	11.1	20.8	10.0	9.1	8.9	8.4	10.6
Hungary	17.0	28.9	35.0	23.0	22.6	19.1	28.5	23.6	18.4	14.2
Poland	264.3	585.8	70.3	45.3	36.9	33.2	28.1	19.8	15.1	11.7
Romania	1.1	5.1	170.2	210.7	256.2	137.1	32.2	38.8	154.9	59.3
Slovakia	1.3	10.4	61.2	10.2	23.1	13.4	10.0	6.0	6.2	6.7
Slovenia	1 285.3	551.6	115.0	207.3	31.7	21.0	13.5	9.9	8.4	7.9
The former Yugoslav Republic of Macedonia [a]	1 246.0	608.4	114.9	1 505.5	353.1	121.0	16.9	4.1	3.6	1.0
Yugoslavia	1 265.0	580.0	122.0	8 926.0	2.2E+14	7.9E+10	71.8	90.5	23.2	30.4
Estonia	4.0	18.0	202.0	1 078.2	89.6	47.9	28.9	23.1	11.1	10.6
Latvia	5.2	10.9	172.2	951.2	109.1	35.7	25.0	17.7	8.5	4.7
Lithuania	2.1	9.1	216.4	1 020.5	410.1	72.0	39.5	24.7	8.8	5.1
Armenia	0.8	6.9	174.1	728.7	3 731.8	4 964.0	175.5	18.7	13.8	8.7
Azerbaijan	0.5	6.1	106.6	912.6	1 129.7	1 663.9	411.5	19.8	3.6	-0.8
Belarus	1.7	5.5	98.6	971.2	1 190.9	2 219.6	709.3	52.7	63.9	73.2
Georgia	0.9	4.2	78.7	1 176.9	4 084.9	22 470.6	177.6	39.4	6.9	3.6
Kazakhstan	1.8	5.6	114.5	1 504.3	1 662.7	1 879.5	175.9	39.1	17.4	7.3
Kyrgyzstan	1.6	5.5	113.9	854.6	1 208.7	278.1	42.9	30.3	25.5	12.1
Republic of Moldova	1.1	5.7	114.4	1 308.0	1 751.0	486.4	29.9	23.5	11.8	7.7
Russian Federation	2.5	5.3	100.3	1 528.7	875.0	309.0	197.4	47.8	14.7	27.8
Tajikistan	1.7	5.9	112.9	822.0	2 884.8	350.3	682.1	422.4	85.4	43.1
Turkmenistan	2.5	5.7	88.5	483.2	3 128.4	2 562.1	1 105.3	714.0	83.7	16.8
Ukraine	2.0	5.4	94.0	1 209.6	4 734.9	891.2	376.7	80.2	15.9	10.6
Uzbekistan	0.7	5.8	97.3	414.5	1 231.8	1 550.0	315.5	56.3	73.2	..

Source: UN/ECE Common Database, derived from national statistics.

Note: From 1992 onwards indices derived from monthly data. Retail prices for Bulgaria and CIS countries for 1989.

[a] Retail prices.

APPENDIX TABLE B.8

Producer price indices in the ECE transition economies, 1989-1998

(Annual average, percentage change over preceding year)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Albania	..	..	..	..	..	..	..	..	..	..
Bosnia and Herzegovina	..	..	129.5	70 374.7	10 967.6	1 184.8	68.7	-4.8	3.2	3.6
Bulgaria	2.8	14.7	296.4	56.1	28.3	59.1	48.9	129.7	888.1	22.8
Croatia	1 346.7	455.3	146.3	826.0	1 510.4	77.7	0.8	1.3	3.7	-1.5
Czech Republic	0.1	2.5	70.3	10.8	9.3	5.4	7.8	4.9	5.1	4.9
Hungary	15.4	22.0	32.6	12.3	14.1	12.3	28.5	22.3	20.9	11.4
Poland	212.8	622.4	40.9	28.0	32.6	31.0	26.0	13.4	12.2	7.2
Romania	..	26.9	220.1	184.8	165.0	140.7	35.3	50.0	150.5	33.6
Slovakia	–	5.2	68.9	5.3	17.2	10.0	9.1	4.0	4.6	3.3
Slovenia	1 413.3	390.4	124.1	215.7	23.3	17.8	12.4	6.7	6.1	6.0
The former Yugoslav Republic of Macedonia	1 357.0	393.8	112.0	2 193.5	258.6	88.7	4.7	-0.1	4.2	4.2
Yugoslavia	1 301.0	468.0	124.0	8 993.0	1.4E+13	7.9E+10	75.7	88.8	20.6	25.9
Estonia	..	19.3	208.4	1 208.0	75.2	36.1	25.5	14.7	8.8	3.8
Latvia	..	..	192.0	1 310.0	117.1	17.0	12.0	13.8	4.3	2.0
Lithuania	..	..	148.2	1 510.0	391.7	44.7	28.7	16.5	6.0	-3.8
Armenia	..	..	120.0	947.0	892.0	4 394.4	187.8	36.3	21.7	4.7
Azerbaijan	..	..	135.0	1 303.0	1 040.7	3 971.6	1 340.1	70.6	11.4	-5.5
Belarus	..	..	150.0	2 326.7	1 536.3	3 362.1	538.6	35.7	89.4	69.1
Georgia	..	..	..	..	..	..	..	..	..	..
Kazakhstan	..	..	193.0	2 369.0	1 342.0	2 952.2	173.6	24.8	15.6	1.0
Kyrgyzstan	..	..	160.0	1 664.0	831.0	223.6	34.0	31.0	27.0	9.4
Republic of Moldova	..	..	130.0	1 210.9	1 078.5	711.7	52.2	30.2	14.9	9.7
Russian Federation	..	..	138.0	1 949.0	887.0	340.0	237.6	50.7	15.0	7.0
Tajikistan	..	..	163.0	1 316.5	1 080.0	665.5	351.7	342.2	107.2	28.4
Turkmenistan	..	..	211.0	994.0	1 610.0	911.0	296.5	2 974.9	260.6	-30.5
Ukraine	..	..	122.0	2 668.8	4 698.3	901.2	450.8	54.6	15.1	13.2
Uzbekistan	..	..	147.0	1 296.0	1 119.0	2 162.6	792.5	128.5	53.9	40.5

Source: UN/ECE Common Database, derived from national statistics.

Note: Indices generally derived from monthly data from 1992 onwards for east European countries and from 1994 for Baltic and CIS countries.

APPENDIX TABLE B.9

Nominal gross wages in industry in the ECE transition economies, 1990-1998

(Annual average, percentage change over preceding year) [a]

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Albania [b]	..	..	..	69.5	34.5	29.3	..	..	..
Bosnia and Herzegovina [c]	..	..	..	..	..	..	249.4	50.8	31.1
Bulgaria	20.8	175.5	132.8	55.1	53.9	57.7	95.0	909.3	..
Croatia [c]	453.7	40.7	466.7	1 444.1	130.5	44.0	11.8	16.3	..
Czech Republic	3.0	16.5	21.0	22.6	16.9	18.3	17.7	12.0	10.8
Hungary [b]	27.2	33.4	24.3	24.9	21.4	21.0	21.7	21.8	16.6
Poland [c]	365.5	64.0	39.4	37.8	39.8	30.1	25.8	19.9	..
Romania [c]	9.7	125.0	173.5	210.7	139.4	55.3	56.7	99.5	53.1
Slovakia [b]	4.3	15.0	18.2	21.2	17.6	15.7	13.8	12.0	6.9
Slovenia	361.5	68.4	196.7	45.1	27.1	17.1	14.0	12.1	10.7
The former Yugoslav Republic of Macedonia [c]	433.6	79.2	1 083.7	454.0	105.8	11.1	3.6	2.3	3.1
Yugoslavia [c]	400.0	100.6	4 886.4	-62.5	229.6	74.1	74.5	41.7	39.6
Estonia [d]	..	122.2	570.3	93.3	71.3	34.6	23.8	19.7	..
Latvia	..	104.5	599.1	111.7	62.7	24.1	14.9	21.6	6.5
Lithuania	15.2	183.9	632.5	231.6	59.3	48.8	34.9	24.2	..
Armenia	6.0	46.9	341.1	737.3	3 345.9	203.9	78.8	31.6	..
Azerbaijan	4.4	82.9	870.4	700.8	575.7	354.8	53.0	36.8	..
Belarus	13.4	113.3	910.9	1 073.8	69.6	618.7	58.5	96.8	112.1
Georgia	6.0	33.9	457.3	2 114.7	23 327.5	87.5	145.4	12.7	..
Kazakhstan	11.0	91.5	1 056.0	1 008.6	1 422.8	178.2	30.9	22.5	..
Kyrgyzstan	0.5	62.1	638.3	745.6	176.3	54.8	29.1	60.3	-1.4
Republic of Moldova	14.2	90.1	815.0	773.0	284.4	37.1	38.7	24.9	..
Russian Federation	13.0	94.9	1 065.7	798.2	260.2	131.4	64.3	21.6	23.9
Tajikistan	8.0	76.2	550.2	917.5	142.2	139.2	418.3	85.4	..
Turkmenistan	..	83.8	1 010.1	1 467.7	622.2	686.2	915.3	121.5	25.4
Ukraine	..	107.6	1 421.7	2 296.2	747.0	403.5	107.1	17.0	..
Uzbekistan	..	82.3	706.1	1 159.3	806.8	278.4	99.8	76.3	..

Source: UN/ECE Common Database, derived from national statistics.

a Calculated from reported annual average wages.

b Gross wages in total economy. For Hungary for 1990-1992; for Slovakia for 1990-1991.

c Net wages in industry. For Poland and Romania for 1990-1992.

d Manufacturing for 1991-1993.

APPENDIX TABLE B.10

Merchandise exports of the ECE transition economies, 1980, 1986-1998

(Billion dollars)

	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	56.367	60.117	63.550	65.020	63.850	61.733	57.241	59.333	62.675	72.937	94.777	100.206	107.382	119.269*
Albania	0.320	0.230	0.230	0.230	0.302	0.231	0.101	0.072	0.123	0.139	0.202	0.213	0.141	0.207
Bulgaria	7.160	7.599	7.841	7.554	6.651	5.232	3.433	3.992	3.769	3.935	5.345	4.890	4.939	4.293
Czechoslovakia	10.475	12.160	12.355	12.381	11.988	10.728	11.319	..	..	..	..	..	..	..
Czech Republic	..	..	..	..	..	..	..	8.767	14.463	15.882	21.273	22.180	22.779	26.358
Slovakia	..	..	..	..	..	..	..	3.500	5.458	6.714	8.585	8.822	9.639	10.667
Hungary	8.609	9.170	9.584	9.999	9.673	9.731	10.226	10.681	8.921	10.701	12.867	15.704	19.106	23.005
Poland	13.071	13.130	14.095	14.573	14.665	18.291	14.912	13.187	14.202	17.240	22.887	24.440	25.756	28.229
Romania	9.217	8.159	8.580	8.971	8.076	4.570	4.266	4.363	4.892	6.151	7.910	8.085	8.431	8.300
Yugoslavia (SFR)	7.514	9.669	10.866	11.311	12.496	12.950	12.984	14.772	..	..	..	..	..	..
Bosnia and Herzegovina	..	..	..	1.550	2.100	1.850	..	..	..	..	0.024	0.058	0.193	0.452
Croatia	..	..	..	2.300	2.600	4.020	3.310	4.353	3.709	4.260	4.633	4.512	4.171	4.541
Slovenia	1.836	2.567	2.757	3.278	3.408	4.118	3.874	6.681	6.083	6.828	8.316	8.310	8.369	9.050
The former Yugoslav Republic of Macedonia	..	..	..	..	0.654	1.113	1.095	1.199	1.055	1.086	1.204	1.147	1.180	1.310*
Yugoslavia	..	3.974	4.063	4.298	4.461	4.651	4.704	2.539	..	..	1.531	1.846	2.677	2.858
Baltic states	..	..	..	..	..	..	..	2.139	4.197	4.324	5.844	6.877	8.461	8.738
Estonia	..	..	..	..	..	..	..	0.444	0.802	1.305	1.838	2.079	2.929	3.214
Latvia	..	..	..	..	..	..	..	0.843	1.401	0.988	1.304	1.443	1.672	1.812
Lithuania	..	..	..	..	..	..	..	0.852	1.994	2.031	2.705	3.355	3.860	3.712
CIS	..	..	..	..	..	..	..	51.110	52.516	62.654	80.007	87.839	89.177	75.146*
Armenia	..	..	..	..	..	..	..	0.026	0.030	0.058	0.101	0.157	0.138	0.142
Azerbaijan	..	..	..	..	..	..	..	0.754	0.351	0.378	0.352	0.341	0.403	0.320
Belarus	..	..	..	..	..	..	1.860	1.061	0.758	1.032	1.776	1.888	1.922	1.900
Georgia	..	..	..	..	..	..	..	0.068	0.069	0.039	0.057	0.070	0.102	0.089
Kazakhstan	..	..	..	..	..	..	..	1.398	1.501	1.357	2.367	2.738	3.515	3.200
Kyrgyzstan	..	..	..	..	..	..	..	0.077	0.112	0.117	0.140	0.112	0.285	0.288
Republic of Moldova	..	..	..	..	..	..	..	0.167	0.178	0.160	0.279	0.252	0.267	0.190
Russian Federation [a]	..	..	..	..	..	..	47.266	42.376	44.297	53.001	65.607	70.975	69.954	57.700
Tajikistan	..	..	..	..	..	..	..	0.108	0.227	0.399	0.497	0.439	0.473	0.394
Turkmenistan	..	..	..	..	..	..	..	0.908	1.049	0.494	0.951	0.551	0.300	0.202*
Ukraine	..	..	..	..	..	..	..	3.297	3.223	4.653	6.168	6.995	8.643	8.200
Uzbekistan	..	..	..	..	..	..	..	0.869	0.721	0.966	1.712	3.321	3.175	2.521*
Former Soviet Union	57.942	60.043	63.406	62.016	62.286	59.056	46.660	53.733	56.713	66.978	85.851	94.716	97.638	83.884*
Total	114.310	120.161	126.957	127.035	126.136	120.788	103.901	113.066	119.389	139.915	180.628	194.922	205.020	203.153*

Source: UN/ECE secretariat, based on national statistical publications and direct communications from national statistical offices.

Note: Data exclude intra-CIS trade, but now include the "new trade" among members of other recently dissolved federal states: former Czechoslovakia (from 1993), the former SFR of Yugoslavia (from 1992), and the trade of the Baltic states with the former USSR (from 1992). Data excluding the "new trade" were shown in earlier issues of this publication. Changes in the method of recording trade are reflected from 1993 in data for the Czech Republic (inclusion of OPT transactions, etc), from 1995 in Latvia (imports registered c.i.f.) and Lithuania (change from special to general system), from 1996 in Hungary (inclusion of trade flows of free trade zones) and from 1997 in Slovakia (inclusion of OPT transactions, etc.).

All trade values for the years 1991-1998 are expressed in dollars at prevailing market exchange rates. For earlier years, values reported in national currencies were adjusted by the UN/ECE secretariat to remove distortions stemming from mutually inconsistent national rouble/dollar cross-rates in the valuation of the then important intra-CMEA trade flows. For details on the revaluation, see the note to table 2.1.3 and the discussion in box 2.1.1 in UN/ECE, *Economic Bulletin for Europe*, Vol. 43 (1991).

[a] Data not adjusted for non-registered flows. Through 1997, GosTamkom data revised by the Russian Goskomstat and include off board sales of fish and other sea products as well as natural gas deliveries under debt repayment agreements with former CMEA countries.

APPENDIX TABLE B.11

Merchandise imports of the ECE transition economies, 1980, 1986-1998

(Billion dollars)

	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	65.443	59.532	62.033	60.158	61.185	63.408	61.610	68.388	76.285	86.128	117.026	135.886	146.220	159.420*
Albania	0.320	0.230	0.230	0.280	0.385	0.381	0.409	0.524	0.421	0.549	0.650	0.913	0.620	0.795
Bulgaria	6.321	8.679	8.222	8.131	7.325	5.584	2.700	4.530	5.120	4.272	5.638	5.074	4.932	4.995
Czechoslovakia	10.619	10.277	12.503	12.180	11.772	11.808	10.962	..	..	..	..	..	..	..
Czech Republic	..	..	..	..	..	..	..	10.368	14.617	17.427	25.265	27.919	27.563	28.822
Slovakia	..	..	..	..	..	..	..	3.889	6.332	6.634	8.777	11.112	11.672	12.959
Hungary	9.188	9.594	9.859	9.372	8.863	8.797	11.449	11.123	12.648	14.554	15.466	18.144	21.240	25.706
Poland	14.705	12.315	12.686	12.987	12.941	12.619	15.531	16.141	18.758	21.566	29.043	37.137	42.308	47.054
Romania	11.061	6.411	6.355	5.361	5.834	6.889	5.793	6.260	6.522	7.109	10.278	11.435	11.280	11.821
Yugoslavia (SFR)	13.229	12.026	12.178	11.847	14.064	17.330	14.765	..	..	..	..	..	..	..
Bosnia and Herzegovina	..	..	..	1.300	1.850	1.750	..	..	..	..	0.524	1.204	1.555	2.025
Croatia	..	..	..	2.900	3.750	5.133	3.811	4.346	4.166	5.229	7.510	7.788	9.104	8.383
Slovenia	2.463	2.740	2.722	2.914	3.216	4.727	4.131	6.141	6.501	7.304	9.492	9.421	9.367	10.098
The former Yugoslav Republic of Macedonia	..	..	..	..	0.934	1.531	1.274	1.206	1.199	1.484	1.719	1.627	1.754	1.912*
Yugoslavia	..	4.753	4.851	4.915	5.383	6.701	5.548	3.859	..	..	2.665	4.113	4.826	4.849
Baltic states	..	..	..	..	..	..	..	1.802	4.101	5.251	8.006	10.110	12.812	13.744
Estonia	..	..	..	..	..	..	..	0.406	0.896	1.659	2.540	3.231	4.444	4.759
Latvia	..	..	..	..	..	..	..	0.794	0.961	1.240	1.818	2.320	2.724	3.189
Lithuania	..	..	..	..	..	..	..	0.602	2.244	2.352	3.649	4.559	5.644	5.796
CIS	..	..	..	..	..	..	..	42.203	33.354	36.745	45.680	49.670	57.977	50.259*
Armenia	..	..	..	..	..	..	..	0.050	0.086	0.188	0.340	0.568	0.593	0.675
Azerbaijan	..	..	..	..	..	..	..	0.333	0.241	0.292	0.439	0.621	0.443	0.660
Belarus	..	..	..	..	..	..	..	0.751	0.779	0.975	1.887	2.369	2.872	3.000
Georgia	..	..	..	..	..	..	..	0.227	0.167	0.065	0.233	0.416	0.600	0.680
Kazakhstan	..	..	..	..	..	..	..	0.469	0.494	1.384	1.154	1.296	1.969	2.200
Kyrgyzstan	..	..	..	..	..	..	..	0.071	0.112	0.108	0.169	0.351	0.274	0.393
Republic of Moldova	..	..	..	..	..	..	..	0.179	0.184	0.183	0.272	0.420	0.567	0.600
Russian Federation [a]	..	..	..	..	..	..	39.294	36.984	26.807	28.344	33.117	32.798	39.363	32.400
Tajikistan	..	..	..	..	..	..	..	0.132	0.374	0.314	0.332	0.286	0.268	0.265
Turkmenistan	..	..	..	..	..	..	..	0.030	0.501	0.782	0.619	0.924	0.531	0.471*
Ukraine	..	..	..	..	..	..	..	2.049	2.651	2.908	5.488	6.427	7.242	6.600
Uzbekistan	..	..	..	..	..	..	..	0.929	0.958	1.202	1.630	3.195	3.255	2.315*
Former Soviet Union	52.218	55.016	53.794	58.044	64.983	64.963	45.405	44.166	37.455	41.997	53.686	59.780	70.788	64.003*
Total	117.661	114.548	115.827	118.202	126.168	128.371	106.901	112.554	113.740	128.124	170.712	195.667	217.008	223.422*

Source: UN/ECE secretariat, based on national statistical publications and direct communications from national statistical offices.

Note: See appendix table B.10.

[a] Data not adjusted for non-registered flows. Through 1997, GosTamkom data revised by the Russian Goskomstat and include off board sales of fish and other sea products as well as natural gas deliveries under debt repayment agreements with former CMEA countries.

APPENDIX TABLE B.12

Balance of merchandise trade of the ECE transition economies, 1980, 1986-1998

(Billion dollars)

	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	-9.076	0.585	1.517	4.861	2.665	-1.675	-4.369	-9.055	-13.610	-13.190	-22.250	-35.681	-38.838	-40.151*
Albania	–	–	–	-0.050	-0.083	-0.150	-0.308	-0.452	-0.298	-0.410	-0.448	-0.701	-0.479	-0.589
Bulgaria	0.839	-1.080	-0.381	-0.577	-0.674	-0.352	0.732	-0.538	-1.352	-0.336	-0.293	-0.184	0.007	-0.702
Czechoslovakia	-0.144	1.882	-0.147	0.201	0.216	-1.080	0.356	..	..	..	..	..	..	..
Czech Republic	..	..	..	..	..	..	..	-1.601	-0.154	-1.545	-3.992	-5.739	-4.784	-2.464
Slovakia	..	..	..	..	..	..	..	-0.389	-0.874	0.080	-0.192	-2.290	-2.033	-2.292
Hungary	-0.579	-0.423	-0.276	0.627	0.810	0.934	-1.223	-0.442	-3.727	-3.853	-2.599	-2.440	-2.134	-2.701
Poland	-1.634	0.815	1.409	1.586	1.724	5.672	-0.619	-2.955	-4.555	-4.326	-6.156	-12.697	-16.551	-18.825
Romania	-1.844	1.748	2.225	3.610	2.242	-2.320	-1.528	-1.897	-1.630	-0.958	-2.368	-3.351	-2.849	-3.521
Yugoslavia (SFR)	-5.715	-2.357	-1.312	-0.536	-1.568	-4.380	-1.780	14.772	..	..	..	..	..	..
Bosnia and Herzegovina	..	..	..	0.250	0.250	0.100	..	..	..	..	-0.500	-1.146	-1.362	-1.574
Croatia	..	..	..	-0.600	-1.150	-1.113	-0.501	0.007	-0.457	-0.969	-2.877	-3.276	-4.933	-3.842
Slovenia	-0.626	-0.173	0.035	0.365	0.192	-0.609	-0.257	0.540	-0.418	-0.476	-1.176	-1.111	-0.998	-1.048
The former Yugoslav Republic of Macedonia	..	..	..	..	-0.280	-0.418	-0.179	-0.007	-0.144	-0.398	-0.515	-0.480	-0.574	-0.602*
Yugoslavia	..	-0.779	-0.788	-0.617	-0.922	-2.050	-0.844	-1.320	..	..	-1.134	-2.267	-2.149	-1.991
Baltic states	..	..	..	..	..	..	..	0.337	0.096	-0.927	-2.162	-3.232	-4.350	-5.006
Estonia	..	..	..	..	..	..	..	0.038	-0.094	-0.353	-0.702	-1.152	-1.515	-1.545
Latvia	..	..	..	..	..	..	..	0.049	0.440	-0.252	-0.514	-0.877	-1.052	-1.377
Lithuania	..	..	..	..	..	..	..	0.250	-0.250	-0.322	-0.944	-1.204	-1.784	-2.084
CIS	..	..	..	..	..	..	..	8.907	19.163	25.909	34.328	38.168	31.200	24.887*
Armenia	..	..	..	..	..	..	..	-0.024	-0.056	-0.130	-0.239	-0.411	-0.456	-0.533
Azerbaijan	..	..	..	..	..	..	..	0.422	0.110	0.086	-0.087	-0.280	-0.040	-0.340
Belarus	..	..	..	..	..	..	1.860	0.310	-0.021	0.057	-0.111	-0.481	-0.950	-1.100
Georgia	..	..	..	..	..	..	..	-0.159	-0.098	-0.026	-0.176	-0.346	-0.498	-0.591
Kazakhstan	..	..	..	..	..	..	..	0.930	1.007	-0.027	1.213	1.442	1.547	1.000
Kyrgyzstan	..	..	..	..	..	..	..	0.006	~	0.009	-0.029	-0.239	0.011	-0.105
Republic of Moldova	..	..	..	..	..	..	..	-0.012	-0.006	-0.023	0.007	-0.168	-0.300	-0.410
Russian Federation[a]	..	..	..	..	..	..	7.972	5.392	17.491	24.657	32.490	38.177	30.591	25.300
Tajikistan	..	..	..	..	..	..	..	-0.024	-0.147	0.086	0.165	0.154	0.205	0.129
Turkmenistan	..	..	..	..	..	..	..	0.879	0.548	-0.288	0.332	-0.374	-0.231	-0.269*
Ukraine	..	..	..	..	..	..	..	1.248	0.572	1.745	0.680	0.568	1.401	1.600
Uzbekistan	..	..	..	..	..	..	..	-0.060	-0.237	-0.236	0.082	0.126	-0.080	0.206*
Former Soviet Union	5.724	5.027	9.612	3.972	-2.697	-5.907	1.255	9.567	19.259	24.982	32.165	34.936	26.850	19.881*
Total	-3.351	5.613	11.130	8.833	-0.032	-7.583	-3.000	0.512	5.649	11.791	9.916	-0.745	-11.988	-20.269*

Source: UN/ECE secretariat, based on national statistical publications and direct communications from national statistical offices.

Note: See appendix table B.10.

[a] Data not adjusted for non-registered flows. Through 1997, GosTamkom data revised by the Russian Goskomstat and include off board sales of fish and other sea products as well as natural gas deliveries under debt repayment agreements with former CMEA countries.

APPENDIX TABLE B.13

Merchandise trade of the ECE transition economies by direction, 1980, 1986-1998

(Shares in total trade, per cent)

	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe, *to and from:*														
Exports														
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	48.5	52.5	50.2	46.5	44.4	38.1	28.5	23.0	28.2	26.3	25.8	26.1	26.1	22.5
Former Soviet Union	27.1	31.0	29.7	27.2	25.5	22.3	17.9	12.4	9.8	9.0	8.9	9.4	10.3	7.5
Eastern Europe	21.4	21.5	20.5	19.3	18.9	15.8	10.7	10.7	18.5	17.4	16.9	16.7	15.8	15.0
Developed market economies	35.7	32.3	35.2	38.7	42.6	49.5	59.8	63.0	58.0	62.5	64.5	65.0	66.4	71.5
Developing economies	15.8	15.2	14.6	14.8	13.0	12.4	11.7	14.0	13.8	11.2	9.7	8.9	7.5	6.0
Imports														
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	42.0	50.3	45.6	40.5	36.4	26.6	25.5	24.7	29.3	26.1	25.3	23.8	22.1	19.3
Former Soviet Union	26.8	34.5	30.7	26.3	23.5	18.3	20.2	17.9	16.5	14.1	13.2	12.7	11.2	8.6
Eastern Europe	18.8	21.2	20.5	19.6	18.7	14.3	8.1	6.8	12.8	12.0	12.1	11.1	10.9	10.7
Developed market economies	38.7	32.3	36.1	41.1	44.0	53.3	58.3	64.4	61.5	65.0	65.8	66.6	68.1	70.8
Developing economies	19.3	17.4	18.3	18.4	19.5	20.1	16.1	10.9	9.2	9.0	8.9	9.6	9.8	9.9
Former Soviet Union/Russian Federation, *to and from:*														
Exports														
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	34.5	38.5	33.5	29.4	26.6	21.8	25.9	22.3	18.1	15.1	16.8	18.2	19.5	18.1
Eastern Europe	34.5	38.5	33.5	29.4	26.6	21.8	25.9	20.7	16.8	11.7	13.2	14.3	14.9	14.2
Developed market economies	42.2	31.0	35.3	38.9	41.8	49.5	56.5	57.9	59.7	66.6	60.6	58.1	58.6	60.0
Developing economies	23.3	30.5	31.2	31.7	31.6	28.7	17.6	19.9	22.2	18.3	22.6	23.8	21.9	21.9
Imports														
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	31.5	38.6	38.2	32.4	27.6	24.7	26.0	15.9	10.6	14.1	15.5	12.6	13.7	11.9
Eastern Europe	31.5	38.6	38.2	32.4	27.6	24.7	26.0	15.0	10.0	11.7	12.4	10.6	11.1	9.8
Developed market economies	46.4	40.9	40.7	46.3	50.1	52.9	58.1	62.4	60.6	70.3	69.5	67.8	68.2	68.1
Developing economies	22.1	20.5	21.1	21.3	22.3	22.4	15.9	21.7	28.8	15.6	15.0	19.6	18.1	19.9

Source: UN/ECE Common Database, derived from national statistics.

Note: Data for 1980-1990 refer to the east European CMEA countries (Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland and Romania) and to the former Soviet Union. Trade data in national currencies were revalued at consistent rouble/dollar cross-rates (see the note to appendix table B.10). For 1991-1997, eastern Europe covers Bulgaria, former Czechoslovakia (from 1993, Czech Republic and Slovakia including their mutual trade), Hungary, Poland and Romania, and the second panel reflects non-CIS trade of the Russian Federation only.

Partner-country grouping has been recently revised with subsequent revisions back to 1980. Thus, the earlier reported "Transition economies" group is now replaced by "ECE transition economies", which covers the Baltic states, CIS and the east European countries including the successor states of the former SFR of Yugoslavia. The "Eastern Europe" partner-group now covers Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and the successor states of the former SFR of Yugoslavia, which earlier were in the "Other socialist countries" subgroup. The rest of subgroup "Other socialist countries", which in previous series covered China, Cuba, Democratic People's Republic of Korea, Mongolia and Viet Nam, is now included in the "Developing countries" group.

APPENDIX TABLE B.14

Exchange rates of the ECE transition economies, 1980, 1986-1998

(Annual averages, national currency units per dollar)

	Unit [a]	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Albania	lek	..	..	..	..	..	8.90	24.20	75.03	102.06	94.62	93.14	104.33	148.93	150.63
Bulgaria	lev	0.86	0.94	0.87	0.83	0.84	0.79	17.45	23.42	27.85	54.13	67.08	177.88	1 681.87	1 760.37
Czechoslovakia	koruna	5.37	16.20	14.79	14.37	15.06	18.56	29.56	28.30	..	..	..	..	..	..
Czech Republic	koruna	..	..	..	..	..	..	..	..	29.15	28.79	26.54	27.14	31.70	32.29
Slovakia	koruna	..	..	..	..	..	..	..	..	30.80	31.93	29.71	30.68	33.62	35.15
Hungary	forint	32.64	45.83	46.97	50.41	59.07	63.21	74.73	78.98	91.91	105.11	125.69	152.65	186.79	214.40
Poland	zloty [b]	3.05	175.28	265.08	430.64	1 439	9 500	10 576	13 627	18 136	22 723	2.42	2.70	3.28	3.49
Romania	leu	4.47	16.80	16.00	16.00	16.00	22.43	71.84	307.98	760.12	1 654	2 033	3 085	7 183	8 876
Yugoslavia (SFR)	dinar [c]	24.64	379.22	737.00	25 239	28 760	11.32	19.64	..	..	..	..	..	..	..
Bosnia and Herzegovina	dinar	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Croatia	kuna [d]	..	..	..	..	..	..	18.80	264.30	3 577.63	6.00	5.23	5.43	6.10	6.36
Slovenia	tolar	..	..	..	..	..	..	27.57	81.29	113.24	128.81	118.52	135.37	159.69	166.13
The former Yugoslav Republic of Macedonia	denar [e]	..	..	..	..	..	..	19.69	508.07	23.26	43.25	38.05	39.92	50.40	54.48
Yugoslavia	dinar [f]	..	..	..	..	..	..	19.64	508.07	..	..	4.74	4.96	5.72	5.99
Estonia	kroon [g]	..	..	..	..	..	..	..	12.11	13.22	12.98	11.46	12.03	13.88	14.08
Latvia	lats [h]	..	..	..	..	..	..	..	..	0.67	0.56	0.53	0.55	0.58	0.59
Lithuania	litas [i]	..	..	..	..	..	..	..	..	4.37	3.98	4.00	4.00	4.00	4.00
Armenia	dram	..	..	..	..	..	..	..	..	8.66	288.35	405.93	413.47	490.70	504.86
Azerbaijan	manat	..	..	..	..	..	..	..	..	..	1 169	4 417	4 295	3 987	3 869
Belarus	rouble [j]	..	..	..	..	..	..	..	..	2177	4 017	11 538	13 472	26 729	48 650
Georgia	lari [k]	..	..	..	..	..	..	..	..	..	1.10	1.29	1.26	1.30	1.39
Kazakhstan	tenge	..	..	..	..	..	..	..	..	..	35.54	60.95	67.30	75.43	78.26
Kyrgyzstan	som	..	..	..	..	..	..	..	..	..	10.86	10.83	12.81	17.37	21.37
Republic of Moldova	leu	..	..	..	..	..	..	..	..	..	4.07	4.50	4.60	4.62	5.36
Russian Federation	rouble [l]	0.65	0.70	0.63	0.61	0.63	0.59	1.74	192.75	927.46	2204	4 559	5 121	5 785	9.71
Tajikistan	rouble	..	..	..	..	..	..	..	..	..	..	107.59	292.89	560.64	778.30
Turkmenistan	manat	..	..	..	..	..	..	..	..	..	19.50	110.42	3 509	4 143	4 941
Ukraine	hryvnia [m]	..	..	..	..	..	..	..	..	4 796	31 700	147 314	1.83	1.86	2.51
Uzbekistan	sum [n]	..	..	..	..	..	..	..	..	932.15	9.96	29.81	40.15	66.43	94.79
Memorandum item:															
Former GDR	mark [o]	3.30	8.14	8.14	8.14	8.14	8.14	1.66	1.56	1.65	1.62	1.43	1.50	1.73	1.76

Source: UN/ECE Common Database, derived from national, IMF and CIS statistics. Annual averages are unweighted arithmetic averages of monthly values. Change or redenomination of currency is indicated by a vertical bar.

Note: Under the central planning system with its state foreign trade monopoly, exchange rates served primarily statistical and accounting purposes (notably the conversion of foreign trade values for statistics expressed in domestic currency), without direct impact on domestic price formation. Market-based exchange rates and a meaningful link to domestic currency values emerged only with the transformations from 1989 onward. The official exchange rates of the earlier period are therefore not suitable for the conversion to dollars of macroeconomic and other data of these countries expressed in domestic currency. These strictures should be kept in mind in the interpretation and use of the data for the 1980s shown above.

a Currency unit of the last period shown. For prior periods, see footnotes.

b The zloty was redenominated at 1:10,000 from 1 January 1995.

c The dinar was redenominated at 1:10,000 from 1 January 1990.

d The kuna replaced the Croat dinar on 3 May 1994 at 1:1,000; the 1994 average is shown in kuna terms.

e The denar (which had replaced the Yugoslav dinar 1:1 on 26 April 1992) was redenominated 1:100 on 1 May 1993; the 1993 average is shown in terms of that unit.

f The dinar was further redenominated on 1 July 1992 (1:10), 1 October 1993 (1:1 million), 1 January 1994 (1:1 trillion) and 24 January 1994 (1:13 million). Average annual exchange rates not available for 1993-1994.

g The kroon replaced the Soviet rouble in June 1992 with a peg to the deutsche mark (8:1); the average shown for 1992 refers to June-December.

h The lats replaced an earlier Latvian rouble at 1:200 on 18 October 1993; the 1993 average is shown in lat terms.

i The litas replaced the earlier talonas at 1:100 on 1 June 1993; the 1993 average is shown in litas terms.

j The Belarus rouble was redenominated 1:10 on 10 August 1994; the 1994 average here assumes this applied to the entire year. Annual averages were calculated from end-of-period monthly rates.

k The lari replaced the lari-kupon on 25 September 1995; the annual average for 1994 is shown in million lari-kupon, and that for 1995 in lari.

l 1980-1991: Soviet rouble/dollar rate used in the conversion of foreign trade data for statistical purposes. The rouble was redenominated at 1:1,000 from 1 January 1998.

m The hryvnia replaced the former karbovanets on 2 September 1996 at 1:100,000; the average for 1996 is shown in hryvnia terms.

n Sum-kupon in 1993.

o German Democratic Republic mark through 1990, deutsche mark thereafter.

APPENDIX TABLE B.15

Current account balances of the ECE transition economies, 1990-1998

(Million dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe [a]	-3 914	-2 502	-862	-7 338	-4 197	-1 090	-13 189	-14 703	-17 557
Albania	-118	-168	-51	15	-43	-15	-107	-271	-187
Bosnia and Herzegovina [b]	..	..	..	..	-492	-570	-1 306	-1 468	-1 580*
Bulgaria	-1 710	-77	-360	-1 098	-25	-26	16	427	-252
Croatia [c d]	-500	-589	329	600	786	-1 284	-858	-2 434	-1 554
Czech Republic	-122	1 709	-456	456	-787	-1 369	-4 292	-3 211	-1 046
Hungary [e]	127	267	324	-3 455	-3 911	-2 480	-1 678	-981	-2 298
Poland [e f]	716	-1 359	-269	-2 329	-944	5 455	-1 352	-4 312	-6 858
Romania [e]	-1 650	-1 369	-1 460	-1 174	-428	-1 774	-2 571	-2 338	-3 010
Slovakia	-767	-786	173	-559	712	646	-2 098	-1 343	-2 059
Slovenia [c]	518	129	926	192	600	-23	39	37	-4
The former Yugoslav Republic of Macedonia [c]	-409	-259	-19	15	-158	-222	-288	-276	-289
Yugoslavia	..	..	..	..	..	..	-817	-1 317[g]	-1 200*[g]
Baltic states	..	..	681	371	-71	-816	-1 425	-1 889	-2 458
Estonia	..	..	153	40	-178	-185	-423	-563	-447
Latvia	..	..	207	417	201	-16	-279	-345	-713
Lithuania	..	..	322	-86	-94	-614	-723	-981	-1 298
CIS	-6 608	1 800	-7 344	285	5 907	4 217	6 386	-2 354	-4 952
Armenia [b]	..	..	-195	-315	-231	-483	-428	-452	-460*
Azerbaijan	..	153	488	2	-121	-401	-931	-916	-1 365
Belarus	..	..	131	-404	-506	-567	-516	-799	-945
Georgia	..	..	-248	-354	-278	-218	-277	-347	-500*
Kazakhstan	..	-1 300	-1 900	-400	-905	-518	-750	-909	-1 700*
Kyrgyzstan	..	..	-61	-162	-124	-235	-425	-138	-330*
Republic of Moldova	..	..	..	-155	-82	-95	-188	-267	-333
Russian Federation [h]	-6 300	2 500	-5 700	2 700	9 284	7 938	12 096	4 049	2 446
Tajikistan	..	..	53	-208	-170	-54	-74	-60	-225*
Turkmenistan	-308	447	926	776	84	24	43	-596	-520*
Ukraine	..	..	-600	-765	-1 163	-1 152	-1 185	-1 335	-821
Uzbekistan	..	..	-238	-429	119	-21	-980	-584	-200*
Total [a]	-10 522	-702	-7 525	-6 681	1 639	2 311	-8 229	-18 946	-24 967

Source: National balance of payments statistics; IMF for Tajikistan, Turkmenistan, Ukraine (1998) and Uzbekistan; UN/ECE secretariat estimates.

a Totals excluding Bosnia and Herzegovina and Yugoslavia.

b Excludes official transfers.

c Excludes transactions with the republics of the former SFR of Yugoslavia: Croatia (1990-1992), Slovenia (1990-1991) and The former Yugoslav Republic of Macedonia (1990-1992).

d Data for 1993-1997 were revised in 1998 according to a new methodology.

e Convertible currencies. Hungary until 1995; Romania until 1992 and Poland until 1997.

f As of 1995 the current account of Poland includes non-classified current account transactions. Excluding this item the current account balance was a $2,299 million deficit in 1995.

g Adjusted to exclude imports for outward processing.

h 1990-1993 excluding transactions with the Baltic and CIS countries.

APPENDIX TABLE B.16

Inflows of foreign direct investment [a] in selected ECE transition economies, 1990-1998

(Million dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998 [b]
Eastern Europe	605	2 329	3 120	4 107	3 491	9 172	7 577	9 116	13 717
Albania [c]	–	–	20	58	53	70	90	48	36*
Bulgaria [c]	4	56	42	40	105	90	109	505	401
Croatia	–	–	16	96	113	101	533	388	854
Czech Republic	180	513	1 004	654	869	2 562	1 428	1 300	2 540
Hungary	311	1 459	1 471	2 339	1 146	4 453	1 983	2 085	1 935
Poland [c]	88	117	284	580	542	1 134	2 768	3 077	5 129
Romania	–	37	73	94	341	419	263	1 215	2 031
Slovakia	18	82	100	134	170	157	206	161	508
Slovenia	4	65	111	113	128	176	186	321	165
The former Yugoslav Republic of Macedonia [c]	–	–	–	–	24	9	11	16	118
Baltic states	–	–	111	236	471	457	684	1 142	1 770
Estonia	–	–	58	160	225	205	150	267	571
Latvia	–	–	43	45	214	180	382	521	274
Lithuania	–	–	10	30	31	73	152	355	926
European CIS	–	100	1 678	1 626	820	2 365	3 096	7 130	3 186
Belarus	–	–	7	10	9	15	73	192	144
Republic of Moldova	–	–	17	14	12	67	24	72	85
Russian Federation	–	100	1 454	1 404	640	2 016	2 479	6 243	2 182
Ukraine	–	–	200	198	159	267	521	623	775*
Total	605	2 429	4 909	5 969	4 782	11 994	11 358	17 388	18 673

Source: National balance of payments statistics.

a Inflows into the reporting country.

b Full year data except for Albania and Ukraine for which extrapolations of January-September rates were used.

c Net of residents' investments abroad. Bulgaria, 1990-1994; Poland, 1990-1995.

OTHER RECENT PUBLICATIONS FROM THE UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

IN THE FIELD OF ECONOMIC ANALYSIS

- *Economic Survey of Europe, 1999 No. 3* (forthcoming)

  This will focus on the ECE's Spring Seminar in May 1999 which was devoted to the economics of pension reform in both market and transition economies. It will include papers by John Eatwell, Lawrence Thompson and Maria Augusztinovics, together with discussants' comments, a summary of the discussions and an introduction by the secretariat.

- *Economic Survey of Europe, 1999 No. 1*, Sales No. E.99.II.E.2 (April)

  This issue provides a detailed survey of economic developments in Europe, the CIS and North America in 1998 and early 1999. There are special sections dealing with the start of EMU, monetary policy in the transition economies, a review of economic adjustment problems in Romania and a chapter devoted to the decline of fertility in the transition economies between 1982 and 1997.

- *Economic Survey of Europe, 1998 No. 3*, Sales No. E.98.II.E.25 (December)

  This issue brings the survey of economic developments in the ECE region up to November 1998 and pays special attention to the aftermath of the Russian crisis, both in Russia itself and in other transition economies. A special study looks at the difficulties of reaching production sharing agreements in Russia while emphasizing their potential role in attracting foreign investment in the country.

- *Economic Survey of Europe, 1998 No. 2,* Sales No. E.98.II.E.18 (July)

  This issue contains in Part One an overview of the economic situation and outlook in the ECE region at mid-year and, *inter alia*, discusses the emergence of financial declines in Russia prior to the August crisis. Part Two contains a selection of papers presented to the UN/ECE Spring Seminar in April 1998 which was devoted to the problems of restructuring the banking and enterprise sectors of the transition economies.

- *Economic Survey of Europe, 1998 No. 1,* Sales No. E.98.II.E.1 (April)

  This publication contains an extensive review of economic developments over the previous year and the outlook for 1998 in western Europe and North America, central and eastern Europe, Russia and the other members of the CIS; the implications of the Asian crisis are discussed at length with special emphasis on the transition economies; also included is a special study of economic developments in the three Caucasian economies from 1991 to 1997; and finally, a large number of statistical tables including an appendix with historical time series.

- The Role of Agriculture in the Transition Process Towards a Market Economy, *Economic Studies No. 9*, Sales No. GV.E.97.0.12

  Proceedings of a Symposium conducted in association with the Südost Institute, Munich, and the Thyssen Foundation. Eleven case studies by national experts of agricultural adjustment in eastern Europe, the CIS and China, plus a comparative overview in an analytical framework and a summary of the discussions.

IN THE FIELD OF POPULATION STUDIES

- Regional Population Meeting (Budapest, Hungary, 7-9 December 1998)

  Population in Europe and North America on the Eve of the Millenium, 1999, Sales No. 99.II.E.16

  Conclusions, 1999, Sales No. 99.II.E.15

  These publications contain national reports prepared by the governments of ECE member states for the Regional Population Meeting, as well as two other documents: "Conclusions" and "Research Areas". The Regional Population Meeting negotiated and adopted the conclusions that are presented in this document. It also considered a non-negotiated document on research priorities for future regional cooperation in population.

- Family and Fertility Surveys

Fertility and Family Surveys in Countries of the ECE Region, Standard Country Report. To date, the FFS Standard Country Reports of the following countries have been published: *Norway* (Sales No. GV.E.96.0.32); *Sweden* (GV.E.97.0.21); *The Netherlands* (GV.E.97.0.22); *Poland* (GV.E.97.0.28); *France* (GV.E.97.0.27); *Latvia* (GV.E.98.0.4); *Finland* (GV.E.98.0.10); *Austria* (GV.E.98.0.24); *Spain* (GV.E.98.0.26); and *Hungary* (GV.E.99.0.6). The FFS reports of the following countries remain to be published: Canada; Belgium; Switzerland; Germany; Estonia; Italy; and Lithuania.

The Fertility and Family Surveys (FFS) project was initiated by the Population Activities Unit (PAU) of the United Nations Economic Commission for Europe in the late 1980s. Its principal objective was to conduct a long-term sample survey research programme focusing on fertility and family change and was aimed at assisting demographers to document and understand various aspects of partnership and reproductive behaviour.

- Migration

In-depth Studies on Migration in Central and Eastern Europe: The Case of Poland, *Economic Studies No. 11*, 1998, Sales No. GV.E.98.II.E.24; The Case of Ukraine, *Economic Studies No. 12*, 1999, Sales No. GV.E.99.II.E.5; and The Case of Lithuania, *Economic Studies No. 13* (forthcoming)

These three in-depth migration/mobility studies are based on household surveys undertaken in Lithuania, Poland and Ukraine during the period 1993-1996 and covering developments over a 20-year span (1975-1994). The surveys and studies were coordinated by the Population Activities Unit (PAU) of the United Nations Economic Commission for Europe in Geneva.

- Population Ageing

Directory of Population Ageing Research in Europe, 1998, Sales No. GV.E.98.0.2

Ageing Research in Europe: Demographic, Social and Behavioural Aspects, 1998, Sales No. GV.E.98.0.1

These two publications are based on an institutional survey of ageing-related research in Europe, that was carried out by the PAU in collaboration with the United States National Institute on Aging in 1995/1996. The goals of the survey were: to take stock of ageing research in the ECE countries; to identify innovative research strategies and high-quality survey instruments that can be used in future research; and to find out what type of cross-national ageing research should be initiated in Europe during the coming years.

Living Arrangements of Older Persons in Canada: Effects on their Socio-economic Conditions, 1998, Sales No. GV.E.98.0.19

Socio-economic Status and Living Arrangements of Older Persons in Finland, Sales No. E.99.II.E.19 (forthcoming)

These two monographs are the first in a series of six country studies to be published over the next few months. They are based primarily on data from a unique collection of census-based samples assembled as part of the PAU's programme of work in the field of population ageing. The aim of these studies is to enhance national capacities to formulate and evaluate programmes and policies targeted towards older people, through increased knowledge of the determinants of the social and economic status of older persons, and through better understanding of the existing range of policy instruments in this field. The other monographs in this series will cover Estonia, Latvia, Romania and Switzerland.

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More details about other publications and activities of the United Nations Economic Commission for Europe, which pay special attention to issues concerning the transition economies, can be found at the secretariat's website: http://www.unece.org

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